

COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FISCAL YEAR ENDED
JUNE 30, 2007**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2007



**The
Mission City**

**CITY OF SANTA CLARA, CALIFORNIA
1500 WARBURTON AVENUE
SANTA CLARA, CA 95050-3796**

PREPARED BY DEPARTMENT OF FINANCE

Introductory Section

CITY OF SANTA CLARA

Comprehensive Annual Financial Report

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Mary Ann Parrot
Director of Finance

December 11, 2007

Citizens of the City of Santa Clara
The Honorable Mayor and City Council
City of Santa Clara
Santa Clara, CA 95050

Dear Citizens, Mayor and Members of the City Council:

The Comprehensive Annual Financial Report (CAFR) of the City of Santa Clara (City) for the fiscal year ended June 30, 2007, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the various funds of the City. All significant disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

One of the City Council's principal strategies for 2006-07 was to implement the City's strategy to move to a structurally balanced budget, increasing General Fund reserves utilizing the six-point strategy outlined below. As a result of the upturn in the regional and City economy, and due to the City's concerted and successful efforts at increasing revenues and holding expenses down, the Council was able to add \$10.4 million to reserves at the end of fiscal year 2006-07. The cause of the surplus is due primarily to two factors: first, increased revenues in key areas such as property, sales and transient occupancy (TOT) taxes, as well as across most other revenue sources (\$5.6 million), and second, net reduction in expenditures due to positions held frozen across the City, after including salary and benefit increases across all departments (\$3.5 million). Other factors included the ability to use interest earnings on the Land Sale Reserve (\$695 thousand), discussed further below, as well as the sale of a small parcel of land owned by the City (\$596 thousand).

In June 2007, City Council adopted the following plan to succeed in the goal of replenishment of the reserves:

1. Continue to maintain a structurally balanced budget that is a balanced budget without the use of reserves.
2. If excess revenues are available, set aside \$3.0 million per year for the next five years in the General Fund Emergency (Working Capital) Reserve. In fact, \$3.0 million was contributed to the Working Capital (Emergency) Reserve in 2006-07. This reserve stands at \$18.1 million, as forecast. This represents 12.7% of the 25% reserve as set by City Council policy; in other words, the \$18.1 million represents about half of the funds needed in this reserve, as set by City Council policy.
3. If excess revenues are available above the level of \$3.0 million, deposit the remaining excess funds in the Capital Project Reserve. The addition to the Capital Project Reserve for 2006-07 was \$6.7 million, bringing the June 30, 2007 balance to \$14.1 million. After the July 1, 2007 appropriation for capital spending and Workers Compensation for 2007-08, the Capital Project Reserve stands at \$5.2 million.
4. Provide for annual Council review of this policy as part of the yearly budget process.

5. Reallocate interest earnings from the Land Sale Reserve to Working Capital (Emergency) Reserves when not needed to balance the General Fund. This was accomplished in 2006-07 and is reflected in the deposit of \$695 thousand to the Working Capital (Emergency) Reserve.
6. Refer to the City Manager to develop financing options for future Capital Improvement Projects.

The Governmental Funds Balance Sheet shows fund balances designated by Council for the indicated purposes at the end of the fiscal year 2006-07 as follows:

General Fund Contingency Reserves	Balance at 6-30-07 (millions)	Remarks
Working Capital (Emergency) Reserve	\$18.1	12.7% of the adopted General Fund Budget of \$142.4 million (2007-08). The policy level is 25% of the General Fund Budget, or \$35.6 million. Current reserve is approximately half of what is required by City Council policy.
Capital Project Reserve	\$14.1 (\$5.2 after 07-08 appropriation on July 1, 2007)	Minimum required \$5 million. The City has a backlog of \$63 million of capital project funding needs during the Five Year Plan 2008-09 through 2012-13.
Land Sale Reserve	\$17.0	Use of interest earnings to balance the General Fund or to contribute to the General Fund Working Capital (Emergency) Reserve; corpus to remain intact.
Building Inspection Reserve	\$5.6	Use for capital or operating funds for Building Inspection Division of Planning and Inspection Department.

Two key challenges face the City's General Fund over the next several years: continue to replenish reserves and develop alternatives for financing \$63 million in needed capital improvements over the next five years, for which the City has no identified sources of financing for \$57 million of these projects. The City Council and staff have these objectives included among their priority goals for the next budget cycle.

During fiscal year 2006-07, the City used a six-pronged strategy to improve the financial picture for the General Fund. This strategy will continue for the next several years, as well.

- Increase fees and cost allocation to approach full cost recovery, continuing a strategy put in place several years ago
- Hold positions frozen when vacant due to attrition and/or retirement; continue to review departmental organization and eliminate services where outdated, unnecessary or where services could be automated
- Defer or delay capital projects unless necessary for critical or essential City functions. Prioritize those critical and/or essential projects to maximize the benefit from capital expenditures
- Continue to work with developers and community to retain and add revenue-producing businesses
- Implement the strategy to replenish General Fund reserves

- Continue to research tax and/or fee increases

Replenishing reserves and budgeting for necessary capital projects in the City's General Fund will take a sustained effort over several years, especially because staff and the City Council have already reduced expenditures and modified services as the organization has responded to the financial challenges over the past five years.

The other major funds for the City are also discussed later in this letter, as well as further analyzed in the Management Discussion & Analysis.

ECONOMIC ENVIRONMENT AND CITY OVERVIEW FOR 2006-07

The City enjoys a diversified industrial and commercial base. Santa Clara is headquarters to some of the nation's leading electronics, telecommunications, computer, and semiconductor firms. In terms of total assessed valuation, approximately 46% of the City's property is commercial/industrial and 54% is residential. The City is also home to a university, a community college, an adult learning center, and a general hospital.

At the national level, the economy continued to slow in 2007, but is expected to pick up again by the middle of 2008. While not a recession, the economy is expected to experience some sluggish growth due to the housing slowdown, with moderate inflation and some modest increase in unemployment. In the quarter ending June 30, 2007, gross domestic product (GDP) grew at an annual rate of 4.0% up from 2.5% in the second quarter of 2006. A recent report by UCLA Anderson Forecast predicts that GDP growth will remain slow until the middle of 2008, averaging 1.9%. The expected economic slowdown is a direct result of the downturn in the residential housing sector and the related construction and financial services markets. Over this same period, the average increase of the consumer price index is forecasted at 2.3%, which is considered moderate and not a threat to the economic vitality of the area.

The State's long-term budget challenges further complicate the City's financial picture. In the November 2004 general election, California voters approved Proposition 1A which prohibits the State from arbitrarily taking away local revenues except under severe financial emergencies. The passage of this constitutional amendment restored \$2.2 million to the General Fund, which had been kept by the state annually for the past several years. Nevertheless, the State continued to divert \$3.8 million in annual property tax revenue for the years 2006-07 and forward from the City under the original ERAF allocation.

At the local level, the City's population continued to grow indicating the City remains an attractive place both to live and to work. According to the California Department of Finance's Demographic Research Unit, the City's population grew from 111,258 in January 2006 to 114,238 in January 2007. This is an increase of 2.7% and compares to the overall population increase of 1.3% in California. Demographers consider that population increases of 1% are normal growth; these figures mean the City grew significantly last year.

The economy in the Silicon Valley region, and in particular, the City of Santa Clara, has turned the corner and continues to work its way out of the most severe economic downturns to affect the area. The consensus economic opinion now believes the Silicon Valley has more than made up the lag in the regional economy and no longer lags the national economy. There are positive signs of economic recovery, as well as some early indications of a softening economy: sales taxes, property taxes and transient occupancy taxes are above last year's receipts.

However, building permit revenues, documentary transfer tax revenues and plan check fees are showing signs of slowing. The primary reason for this is the slowdown in housing and is further borne out by the flattening seen in the sales tax figures for building materials, both retail and wholesale. Although housing prices are still increasing, the double-digit price appreciation has fallen to 6.9% in recent months, and inventory of houses on the market has risen significantly.

General Fund Overview

The fiscal 2006-07 direct and indirect revenues to the General Fund were \$19.9 million higher compared to prior year. The General Fund's major direct revenue sources – sales, property, and other local taxes were \$9.5 million higher than in the previous fiscal year, indicating that the economic recovery for the City entered a second year. Additionally, Contributions in Lieu of Taxes increased by \$1.9 million over the prior year due to utility rate increases and increased usage. Lastly, the increase in the fair value of investments was \$4.5 million over the prior year. The increase in fair value of investments is an accrual required by accounting standards; in other words, the increase in realized revenues in the General Fund was \$15.4 million higher than the prior year. In addition, the City also incurred increased direct and indirect expenditures of \$0.3 million due primarily to increased costs of salaries and benefits approved for employees. The additional revenues this year covered the increased expenditures, and after the required transfers to the City's Land Sale Reserve of \$0.6 million and the Building Inspection Reserve of \$39 thousand, the City is able to add \$3.7 million to the General Contingency Working Capital (Emergency) Reserves (\$3.0 million by policy, as well as \$0.7 million in Land Sale Reserve interest earnings), both by policy adopted by Council during the 2007-08 budget process. The remainder of the surplus, \$6.7 million, will be added to the Capital Projects Reserves.

Further discussion on the City's other significant funds – General Fund, utilities, Redevelopment Agency (RDA) is contained later in this letter. Additional detailed discussions on all funds can be also be found in the Management Discussion and Analysis (MD&A), which follows this transmittal letter.

These funds, as well as other relevant City funds are discussed in more detail in the Management Discussion and Analysis, which follows.

CITY MISSION, VISION, AND GOALS

Mission Statement

The mission of the City of Santa Clara is to promote a living and working environment that allows for the best quality of life by serving the community with resourceful, efficient, progressive and professional leadership. (Approved by City Council on July 25, 1989.)

Vision

SANTA CLARA: Superb, affordable services in a caring community that values our rich history and nurtures technologies that build the future.

In May 2007, the City Council adopted the Council priority and supporting principles for fiscal years 2007-08 and 2008-09.

Council Priority:

The City Council priority is to focus on successful completion of existing City projects, postpone new City projects and proposals, and operate within Council adopted budget principles and priorities, with the goal of guiding the City successfully to economic prosperity.

Supporting Principles:

- Maintain Superb/Affordable Core Services,
- Foster Public Trust/Demonstrate Leadership,
- Work Efficiently with Focus on Fiscal Responsibility,
- Support and Celebrate Community/Volunteer Partnerships,
- Pro-active Economic Development/Fiscal Partnerships.

The City Manager, with the assistance of City department heads, has developed implementation plans for achieving these goals and the related objectives. Quarterly status reports of accomplishments are prepared and presented to the City Council as several action plans related to each goal are completed.

MAJOR CITY INITIATIVES**Public Facilities and Special Programs**New Public Facilities

The City has been upgrading or adding new facilities to enhance its service delivery to citizens. Fire Station 3 opened in June 2006, a replacement for the 45-year old station. Fire Station 4 reconstruction bids were opened, a contract was awarded, and construction started in May, 2007, with a completion date planned of March, 2008. This will also replace a 45-year old structure. In addition, the City celebrated its third full-year of operation of its new Central Park Library. Patronage increased significantly, with over 56,700 residents with active library cards. During 2006-07, over 1.3 million visitors used the library, checking out over 2.7 million items.

Parks and Recreation

During fiscal 2006-07, the expanded Senior Center opened in February 2007 to record crowds, and continues to realize record-setting attendance. The Reed Street Dog Park was dedicated and opened in January 2007. Geoff Goodfellow Sesquicentennial Park was also dedicated in December 2006. The Santa Clara Youth Soccer Park clubhouse and complex was under construction for the year 2006-07 and was opened in August 2007. The facility includes a snack bar, patio, meeting room, lockers and restrooms.

Land Use/Neighborhood IssuesHousing Programs

The City is currently in its second year of another 5-year capital budgeting program for providing affordable housing and housing-related services to the community. This program is funded and managed out of the Redevelopment Agency (RDA) of the City. The City and the RDA continue to support the production, preservation and rehabilitation of affordable housing-related services in the City, including various grant programs to non-profit agencies that provide housing services to Santa Clara residents such as Catholic Charities, Council on Aging, Emergency

Housing Consortium-LifeBuilders, Silicon Valley Independence Living Center, Next Door – Solutions to Domestic Violence, and Project Sentinel.

In the housing program, since the establishment of the Housing Programs Fund in 1990, the Agency has appropriated \$109.1 million in funding assistance for programs and projects that increase, improve or preserve affordable housing for low- and moderate-income households. These funds have assisted or will assist in the development of over 2,171 new housing units and the acquisition/rehabilitation of over 707 units of existing housing for low- and moderate-income households. These assisted housing units and the provision of affordable housing has provided affordable housing opportunities to over 2,403 low-income households and over 492 moderate-income households.

A major emphasis during 2006-07 was the completion of planning and design for the Bay Area Research Extension Center (BAREC), the Santa Clara Gardens Project on the former State agriculture station property of the former BAREC site, which includes the construction of 162 affordable apartment units for low and very low income seniors, a 1-acre park, and 110 single family at-market homes to be built by a private developer. Two of the City Council entitlement actions related to this project were placed before the voters in February 2007, for the residents to decide whether to move forward with the project.

Another project that received funding in 2006-07 was the Belovida Senior Apartment project proposed for the Martin property: 30 units for seniors, funded with \$3.5 million from the RDA Affordable Housing Fund. The project received entitlements in August 2007 and construction is slated to start in Summer 2008.

In January 2007, the City revised the Below Market Purchase (BMP) Program for implementation of the City's housing policy. The new BMP Program eliminated the need for the Redevelopment Agency to contribute mortgage assistance grant to projects which included affordable units since BMP buyers are now eligible for the Agency's First Time Home Buyers' Program. This change will ensure better efficiency and leveraging of the Agency's Affordable Housing Funds. During fiscal year 2006-07, several low- and moderate-income housing projects which included affordable units were completed or started and continue into 2007-08:

- Pacific Gardens Assisted Living Community –completed
- Citation Homes/Rivermark BMP – 26 units completed
- Bowers Townhouse Project – 1 unit completed
- Marina Playa at Flora Vista BMP – 4 units completed
- Vidovich at Buckingham BMP – 6 units completed
- Main Street Condo Conversion – 1 unit completed
- Camino Town Homes BMP – 1 unit completed
- Cortez Drive Apartment Condo Conversion BMP - 9 units completed
- El Matador Apartment Condo Conversion BMP– 7 units completed
- Homestead Manor Apartment Condo Alliance Development BMP – 2 units underway
- Fairway Glen Center BMP – 3 units completed
- Hope Rehabilitation Site Development BMP - 5 units underway
- Underwriter Lab Site BMP Townhouse – 13 units underway

The City and the Redevelopment Agency also participate with Silicon Valley Habitat for Humanity. In November 2006, they commenced Phase II of the Gianera Street project to construct 6 homes. Construction on the project is anticipated in the Fall of 2007.

South of Forest Neighborhood

An additional issue addressed late in the fiscal year 2006-07, was the South of Forest Neighborhood street improvements, an estimated \$20 million project over the next 5 years. During budget discussions in May 2007, City Council made the decision to use several sources of funding, federal, state and local, to approve the project in the Five Year Plan (2008-09 through 2012-13) for reconstructing and repairing streets, curbs, gutters and sidewalks in the neighborhood.

Economic Development

The City of Santa Clara has a team approach to economic development, anchored by emphasis on high quality services, including reliable energy, water and other utility services at the lowest combined utility rates in the nine-county region. As one example of this effort, during the year, two companies, Agilent Technologies and Marvel Semiconductor, continued the expansion of their respective corporate headquarters in the City. In addition, EMC Corporation announced the co-location of its regional software, sales and service operations in the City.

Redevelopment Agency

The North of Bayshore Redevelopment Project Area is one of the key elements of the City's economic development program.

In the Redevelopment Agency, activity for the year can be categorized in two major areas: housing and capital projects. With regard to affordable housing, this is discussed earlier in this letter. With regard to major projects, early in the year, the emphasis was on moving forward with the search for a developer for the Downtown Revitalization project in the University project area. The latter half of the year has been spent on evaluating the San Francisco 49'ers proposal to build a stadium in the North of Bayshore project area.

Staff developed a long-range financial plan for this project area that outlines significant projects, which are either in progress or are planned for the area. The funding and the desirable projects, which include a parking structure, a fire station, future branch library, and expansion of the Convention Center ballroom, are consistent with the economic development goals of the City. The parking garage is currently under consideration regarding placement and design, as a result of the recent proposal by the San Francisco 49ers football team, discussed below. The Convention Center ballroom expansion design was completed, and included 24,000 square feet of space, with kitchen facilities. The project was approved by City Council for bidding in 2006-07; several of the major contracts were awarded early in 2007-08, and construction is expected to be completed in February 2009. The library is on hold until operational funding can be secured in the General Fund.

In the summer of 2006, Yahoo! announced the purchase of 46 acres of land in Santa Clara, and will use it to build a new campus for their Internet company. The site is between Old Ironsides Drive and Patrick Henry Drive off Tasman Boulevard near Great America Parkway. Yahoo! is currently headquartered in Sunnyvale and has two campus locations in Santa Clara.

The second project area – University Project – was also active in 2006-07. In April, 2007, the City Council selected two developers: CIM Group and Summerhill/Highland, to move to the RFP process for the Downtown Revitalization Project. This is a proposed mixed-use concept of retail, office and housing on a parcel of 7.3 acres in the City's old quad area, the original downtown for the City of Santa Clara. The concept is for 350-400 housing units, 125,000

square feet of retail, and refurbishment of an existing office building. The next step will be to release the RFP, evaluate responses, and report back to the City Council for direction.

In April 2007, the San Francisco 49ers presented a proposal to build a new 68,000-seat stadium in the vicinity of Great America Theme Park, the Convention Center and the Hilton Hotel. The total project proposed includes a parking garage and is estimated to cost approximately \$900 million. The City/RDA contributions are estimated at \$222 million. The City is currently in the end stage of a feasibility study and City Council will meet with the community to discuss the findings. No final determination had been made regarding the feasibility of the project at the time of the writing of this letter.

Santa Clara Utilities

Santa Clara Electric Utility d.b.a. Silicon Valley Power (SVP)

The City continues to proactively address the electricity needs of the community to better serve the City's businesses and residents. SVP's Five-Year Plan includes funds for operations and capital refurbishments of substations and the DVR Plant, as well as green power initiatives.

In accord with the Electric Utility's Five-Year Plan, and in response to termination of two advantageous long term contracts and increased volatility in energy costs, City Council approved the first rate increase in thirteen years for the electric utility: a combined increase of 10.25% over two rate increases in January 2006 and July 2006. Concurrently, the utility budgeted for a planned drawdown of \$28 million in reserves until the positive effects of the rate increase took effect. This allowed the utility to balance their operating and capital budgets for the year. The utility's bond rating was reviewed by the ratings agencies and confirmed after the Enron settlement at "A" by Fitch in January 2006. The City also completed a forward swap of some of the Electric Utility bonds, which will save the ratepayers approximately \$500,000 per year in interest costs starting in 2008.

For the fiscal year 2006-07, the Electric Utility realized an operating loss of \$23 million, but after non-operating income sources are considered, realized a positive net income of \$13 million before transfers out. The operating loss is indicative of a "structural imbalance" on the operations side, and translates into the need to balance the budget for operations through a series of rate increases, which will resolve the structural deficit on the operations side. This will reduce the need to use reserves for operations. At the same time, because of other income sources, some of which is recurring in non-operating categories, the utility is realizing positive net income. The Electric Utility is forecasting a continued use of reserves for capital expansion, and should be able to accommodate this in the short run. In the long run, the utility will continue to monitor the need for additional actions to be taken in order to maintain positive operating income, net income and a target range Cost Reduction Fund Reserves of between \$120 million and \$180 million.

For those reasons, the City Council is reviewing a two-year increase of 3% in January 2008 and 3% in January 2009.

Water and Sewer Utilities

In addition to providing efficient and affordable water and sewer utility services to Santa Clara residents and businesses, the City continues to undertake programs to improve water quality and water supply reliability for its residents and to minimize treated sewage effluent discharge into the South Bay. The rate increases of 8% for water and 10% for sewer were due primarily to

the cost of wholesale water and wastewater services the City purchases from other entities for resale to the residents.

A study of sewer capacity during 2006-07 showed the need to begin to plan for a \$27 million expansion of the distribution system in order to handle the increased capacity from residents moving in on the west side of the City. The City will issue bonds in late 2007-08 or early 2008-09 to fund construction of additional sewer utility distribution lines on the west side of the City. In addition, the City is interviewing firms for conducting a master plan development of sewer capacity in the City.

The City continues to expand its recycled water program. Currently 13 City parks, the Santa Clara Youth Soccer Park, City Cemetery and Santa Clara Golf and Tennis Club and the Donald Von Raesfeld Power Plant are using recycled water. The City now saves 1,200 acre-feet of potable water per year due to the implementation of the recycled water program.

The City continues to have the lowest in combined utility rates of all the nine bay area counties. This, in addition to the consolidated green power efforts the City has practiced for several years. These programs include SVP Green Power, the Big Horn Wind Project, installation of solar power at Great America Train Station, the use of hybrid vehicles for 69% of the City's fleet, curbside battery collection, Tree City USA award for the 20th consecutive year, and the continuation of the City's recycled water program.

THE REPORTING ENTITY AND ITS SERVICES

The City of Santa Clara, also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. It uses the Council/Manager form of government. The City Council is made up of six Council members and a directly elected Mayor, all of whom serve "at large". The City Council appoints a City Manager who is responsible for the overall administration of the City. The City is located in the County of Santa Clara, California, and is approximately 45 miles southeast of San Francisco and three miles west of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.2 square miles.

The City provides a full range of services. These services include police, fire protection and emergency dispatch; electric, water and sanitation services; the construction and maintenance of streets and infrastructure; parks and recreational activities and cultural events; planning and zoning; library; cemetery; and general administrative and support services.

This CAFR includes all funds of the City, as well as all activities of entities considered to be a part of, controlled by, and dependent on the City. These entities include the Redevelopment Agency of the City of Santa Clara (Agency), the Public Facilities Financing Corporation (PFFC), and the City of Santa Clara Sports and Open Space Authority (SOSA). In addition, separate financial statements have been issued for both the Agency and the Electric Utility Enterprise Fund. These separate financial reports are available at the Santa Clara City Hall in the City Clerk's Office.

FINANCIAL INFORMATION

Internal Controls

The management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above stated framework. City management believes the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Single Audit

As a recipient of federal financial assistance, the City is responsible for establishing and maintaining adequate internal controls to ensure compliance with applicable laws and regulations related to those programs. Internal controls are subject to periodic evaluation by management and the City's independent certified public accountants.

As part of the City's single audit, tests are made to determine the adequacy of internal controls, including that portion related to federal financial assistance programs, and that the City has complied with applicable laws and regulations. The results of the City's single audit for the year ended June 30, 2007, published in a separately issued report, indicated that there were no material weaknesses in internal controls.

Budgetary Controls

As part of the City's internal controls, it maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the majority of the City funds are included in the annual appropriated budget. In addition, each year a Capital Improvement Project Budget is adopted and a Five Year Financial Plan is updated and accepted by the City Council. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The City Manager may transfer appropriations from one program to another within the same fund and the object category of a department without approval from the City Council. All other transfers must be approved by the City Council. The City also maintains an encumbrance accounting system as one technique for accomplishing budgetary control. Encumbrances outstanding at year-end are reported as reservations of fund equity since they do not constitute expenditures or liabilities under GAAP.

As demonstrated by the statements and schedules included in the Required Supplementary Information and Supplementary Information sections of this report, the City continues to meet its responsibility for sound financial management.

Measurement Focus and Basis of Accounting

All governmental funds and agency funds are accounted for using the modified accrual basis

of accounting. Under the modified accrual basis, revenues are recorded when received in cash, except for revenues susceptible to accrual and revenues of a material amount that have not been received at the normal time. Revenues considered susceptible to accrual are those that are measurable and available to finance the government operation during the year. Expenditures, other than accrued interest on general long-term debt, are recorded at the time liabilities are incurred. The measurement focus of governmental funds is available financial resources. Therefore, long-term assets and liabilities are not reported in governmental funds but instead are reported in the government-wide financial statements.

All proprietary funds are accounted for using the full accrual basis of accounting. Under the full accrual basis, revenues are recorded when they are earned and expenses are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of revenues or payment of expenses may take place, in whole or in part, in another accounting period. The measurement focus of these funds is capital maintenance and therefore, all fund assets and liabilities are reported in the fund.

OTHER INFORMATION

Independent Audit

The City Charter and State of California statutes require the City to have an annual audit by an independently certified public accountant. The City goes to the market with an RFP for audit services every five years. The accounting firm of Vavrinek, Trine, Day and Co., LLP, Certified Public Accountants, was selected by the City Council in 2006, and is in the second of five years as the City's auditor. In addition to meeting the requirements set forth in City Charter and State statutes, the audit is designed to meet the requirements of the federal Single Audit Act of 1984, as amended in 1996, and related OMB Circular A-133. The auditors' report on the basic financial statements and the supplementary combining statements and schedules are included in the financial section of this report. The auditors' reports related specifically to the single audit are included in a separately issued single audit document.

Awards

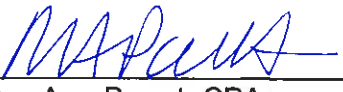
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Clara for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. The City has received this prestigious award for the past fifteen consecutive years. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Staff believes that our current Comprehensive Annual Financial Report (CAFR) continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City has received the Certificate of Award for outstanding financial reporting from the California Society of Municipal Finance Officers (CSMFO) for the past sixteen consecutive years.

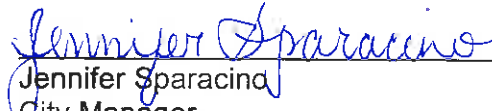
Acknowledgments

We would like to thank the Mayor and City Council for their support in establishing the policies for guiding the financial operations of the City in a responsible and progressive manner. Department Heads are also thanked for their strong leadership in adhering to financial goals and practices. Finally, we wish to acknowledge the excellent participation and professional contribution by the City staff and the City's auditors, Vavrinek, Trine, Day and Co., LLP, in the preparation of this document. Their dedication in preparing the City's Comprehensive Annual Financial Report and their efforts in preparing a document that is understandable and useful to the residents of the City and other readers is greatly appreciated.

Respectfully submitted,



Mary Ann Parrot, CPA
Director of Finance



Jennifer Sparacino
City Manager

CITY OF SANTA CLARA
Comprehensive Annual Financial Report
June 30, 2007

ROSTER OF COUNCIL AND COMMISSION MEMBERS

CITY COUNCIL

Mayor	Patricia M. Mahan
Councilmember	Dominic J. Caserta
Councilmember	Will Kennedy
Councilmember	Patrick Kolstad
Councilmember	Joe Kornder
Councilmember	Jamie McLeod
Councilmember	Kevin Moore

BOARD OF LIBRARY TRUSTEES

Omar Ahmad, Robert Byrd, Allen Lo,
Sandra S. Rich, Jack Spillane

CIVIL SERVICE COMMISSION

Steven Chan, Mohammed M. Nadeem Ph.D,
Robert T. Owens, Randy Preston, Beverly Lynne Silva

CULTURAL ADVISORY COMMISSION

Sheilah Altomare, Michelle Castro, Martin A. David,
Marwan A. Fawal, Jacqueline Moore, Art Silva,
Phal J. Vaswani

HISTORICAL & LANDMARKS COMMISSION

Jim Boynton, Christina Francisco, Mary Ann Marinshaw,
Gerald McKee, Charles A. Petersen, Ed Richards,
Rosalie Wilson

INTERNATIONAL EXCHANGE COMMISSION

Beatrice Costa, R. Rushton Hurley, Maria Alice Jensen,
Heidi M. Kozlowski, James Mathre, Eugene Mirabella,
Peter Yoon

PARKS AND RECREATION COMMISSION

Lio Francisco, Julie Frazier, Raymond G. Gamma,
Steve Lee, Jerry Marsalli, Chuck Seymour

PLANNING COMMISSION

Frank Barcells, Ian Champeny, Todd Fitch,
Karen Hardy, Tony Marine, Mohammed A. Sarodi

SENIOR CITIZENS ADVISORY COMMISSION

Ann Creighton, Patrick Driscoll, Foster Steven Lopes,
Carolyn G. McAllister, Doris M. Modesitt,
Edward Murphy, Cleo M. Stuckrath

YOUTH COMMISSION

Ferheen Abbasi, Paul Barghouth, Michelle Biocini,
Leslie Harbinson, Vanessa Harsh, Amelia Herrera,
Zedric Ochoa, Linda Oseso, Tracy Ottey,
Jennifer Padwal, Angela Prochnow, Ashley Seymour,
Alex Vargas, Anya Vo, Amanda Whitecomb

HOUSING REHABILITATION LOAN COMMITTEE

Anne Kepner, Brice McQueen, Michelle Smith,
Jamie McLeod

CITY OF SANTA CLARA
Comprehensive Annual Financial Report
June 30, 2007

EXECUTIVE MANAGEMENT TEAM

CITY MANAGER
Jennifer Sparacino

CITY CLERK/CITY AUDITOR
Rod Diridon, Jr.

ASSISTANT CITY MANAGER
Ronald E. Garratt

CITY ATTORNEY
Helene L. Leichter

DEPUTY CITY MANAGER
Carol L. McCarthy

CHIEF OF POLICE
Stephen D. Lodge

DIRECTOR OF PUBLIC WORKS/CITY ENGINEER
Rajeev Batra

FIRE CHIEF
Phil Kleinheinz

DIRECTOR OF PLANNING & INSPECTION
Kevin Riley

DIRECTOR OF ELECTRIC UTILITY
John Roukema (Acting)

DIRECTOR OF FINANCE
Mary Ann Parrot

DIRECTOR OF WATER & SEWER UTILITIES
Robin G. Saunders

DIRECTOR OF HUMAN RESOURCES
Renée Runġis

**DIRECTOR OF STREETS &
AUTOMOTIVE SERVICES**
Richard J. Mauck

CITY LIBRARIAN
Karen Saunders

DIRECTOR OF INFORMATION TECHNOLOGY
Gaurav Garg

DIRECTOR OF PARKS & RECREATION
Larry Wolfe

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Santa Clara
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



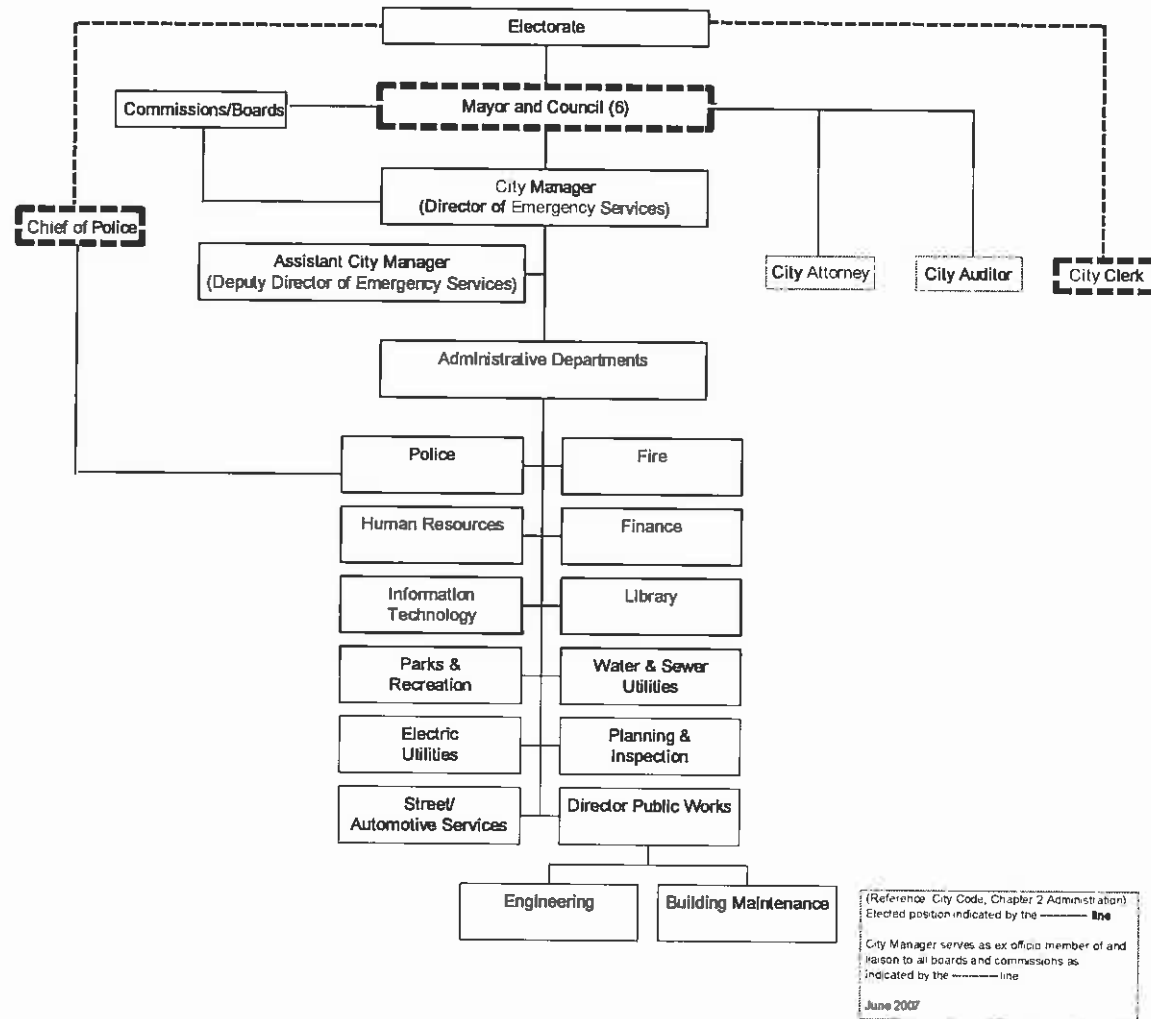
Chloe S. Cox

President

Jeffrey R. Ennis

Executive Director

CITY OF SANTA CLARA ORGANIZATION CHART



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Financial/MD&A Section



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS REPORT

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara, as of and for the year ended June 30, 2007, which collectively comprise the City of Santa Clara's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Santa Clara Government's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara's as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 2007, on our consideration of the City of Santa Clara internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Required Supplemental Information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic statements of the City of Santa Clara. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Varrinck, Trine, Day & Co., LLP.

Pleasanton, California
December 4, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Santa Clara's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year 2006-07. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL YEAR 2006-07 FINANCIAL HIGHLIGHTS

In fiscal year 2006-07 the Bay Area economy, and in particular the Silicon Valley region, continued to grow moderately. Regional economic growth also remained moderate - but notably - the Silicon Valley is no longer lagging the rest of the region as it had been the last few years. Unemployment in the City of Santa Clara remained at 4.3% for June 2007, the same as in June 2006. In 2006 the average pay per employee in Silicon Valley increased by 4.0% from \$71,400 to \$74,300. Median household income increased by 6.5% from \$71,600 to \$76,300. With regard to the business and real estate side of the economy, major parts of the residential market cooled during the past year but the commercial and industrial market has experienced a resurgence throughout the area. Residential rentals and homes for sale increased throughout the area, and the number of deeds recorded declined 14% from the previous year. Commercial vacancy rates for office, R&D, Industrial and warehouse space declined from a high of 17.6% in 2003 at the height of the recession, to 11% in 2006. Assessed values increased on average 8.25%, with Santa Clara assessed values increasing 8.61%.

The result of the increases in employment, earnings, and corporate expansion was significant: key revenue sources for the General Fund - sales tax, property tax and transient occupancy tax - experienced healthy increases in fiscal year 2006-07 compared to the prior fiscal year. This is further discussed in the analysis that follows. Other revenue sources in the General Fund were witness to the residential housing slowdown, as well: documentary transfer tax declined appreciably compared to last year as a result of decreased activity in the City's real estate market. Lastly, in fiscal year 2006-07 the City continued to shift approximately \$3.8 million in General Fund property tax revenue to the State's Educational Revenue Augmentation Fund for public schools. This was a decline of \$2.2 million in General Fund contributions to ERAF, and this is also reflected in the General Fund's positive financial position.

Additional financial highlights of fiscal year 2006-07 include (see Table 2):

Citywide:

- The City's total net assets (assets exceeding liabilities) were \$1,561 million in fiscal year 2006-07, a \$42 million increase from the prior year. The increase of \$18 million in the Governmental Funds is due to increases in the General Fund and Redevelopment Agency (RDA) from property, sales taxes, transient occupancy tax (TOT) and other revenue streams. Increases of \$24 million in the Business-type activities is for increases in net assets for the Enterprise Funds: Electric Utility of \$12 million, Water and Sewer Utility of \$13 million, offset by declines in net assets for the Water Recycling, Cemetery and the Golf and Tennis Club.
- Total City revenues, including program and general revenues, were \$729 million, an increase of \$44 million from the prior year, while total expenses were \$687 million, a decrease of \$33 million. The revenue increases include significantly higher sales and

property tax revenues in the governmental activities and higher retail operating revenues for the Electric Utility (\$28 million) and the Water and Sewer Utility (\$9 million), offset by decreases in the Electric Utility's wholesale revenues. The decrease in expenses is primarily related to the proportional decrease in wholesale energy costs (\$52 million) and somewhat by decreases in costs in the Water and Sewer Utility (\$2 million).

- Governmental net assets were \$705 million, an increase of \$18 million. Net assets in Business-type activities were \$856 million, an increase of \$24 million.
- Governmental program revenues were \$32 million, or unchanged from the prior year.
- Governmental program expenses were \$160 million in fiscal year 2006-07, unchanged from the prior year.
- Program revenues from Business-type activities were \$530 million in fiscal year 2006-07, up \$6 million from the prior year, due to the increase in rates for the water, sewer and electric utilities.
- Expenses of Business-type activities were \$527 million in fiscal year 2006-07, a decrease of \$34 million from the prior year, due primarily to decreased costs of wholesale energy and water for the Electric and Water & Sewer utilities.

Fund level:

- General Fund direct revenues of \$134 million represented an increase of \$18 million from prior year amounts. This increase represents the effect of an improved economy across most revenue categories in the General Fund.
- General Fund expenditures of \$126 million were \$5 million more than the prior year due primarily to the increases of salaries and benefits reflecting recent union negotiations.
- The General Fund fund balance of \$77 million as of June 30, 2007 is \$10 million more than the prior fiscal year.
- See additional analysis in the "Financial Activities of the City As a Whole" section below.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is presented in three parts:

- 1) Introductory Section, which includes the Transmittal Letter and general information,
- 2) The Financial Section, which includes the auditor's opinion, the management discussion and analysis, the Basic (City-wide) and the Fund Financial Statements, along with the notes to these financial statements, the required Supplementary Information, and the Combining Statements for Non-major Governmental Funds and Fiduciary Funds,
- 3) Statistical Information.

The Basic Financial Statements

The Basic Financial Statements are comprised of the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—for the City as a whole, and fund by fund.

The City-wide Financial Statements provide a view of the City's activities as a whole. They are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets is a citywide "Balance Sheet" and provides information about the financial position of the City as a whole, including

all its capital assets and long-term liabilities on the full accrual basis, similar to that used by private corporations. The Statement of Activities is a citywide "Income Statement" and provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and/or expenses of each City program. The Statement of Activities explains in detail the changes in Net Assets for the year.

The City-wide Financial Statements group all the City's activities into government-type activities and business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into governmental activities and business-type activities to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on each of the City's funds. The Fund Financial Statements are further grouped into Governmental, Enterprise and Internal Service groupings. The Governmental Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts. The Proprietary Fund Financial Statements measure current revenues and expenditures, as well as including capital assets, long-term debt and other long-term amounts.

Major Funds account for the specific financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Fiduciary Fund statements provide financial information about the activities of the funds for which the City acts solely as agent.

Together, all these statements are now called the Basic Financial Statements; formerly they were called the General Purpose Financial Statements.

The Citywide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental Activities**—All of the City's basic services are considered to be governmental activities. These services are shown as Functions or Programs on the Statement of Activities. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

The City's governmental activities also include the activities of two separate legal entities, the Redevelopment Agency of the City of Santa Clara and the City of Santa Clara Public Facilities Financing Corporation, because the City is financially accountable for these entities.

- **Business-Type Activities**—All of the City's enterprise activities, including the electric utility, water utility, sewer utility, water recycling, solid waste, cemetery, Sports and Open Space Authority, Santa Clara Golf & Tennis Club

and Santa Clara Convention Center are considered Business-Type Activities. Unlike governmental services, these services are supported by fees paid by users based on the amount of the service they use.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

Fund Financial Statements include Governmental, Enterprise and Internal Service Funds as discussed below.

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all Non-Major Funds summarized and presented only in a single column. The Non-Major Fund Statements are presented towards the end of this report.

Major Funds present the primary activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

There are two Major Governmental Funds presented in the fund financial statements, the General Fund and the Redevelopment Agency. There are 9 Major Proprietary Funds

Because the focus of individual governmental funds is narrower than that of the governmental activities in the citywide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the citywide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Comparisons of Budget and Actual financial information are presented only for the General Fund (pp 110-112) and other Non-Major Funds that are Special Revenue Funds (p 124).

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

The Major Proprietary Fund Financial Statements, which include the Enterprise and Internal Service Funds, are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term.

All of the City's Enterprise Funds are considered Major Funds and are presented individually in the Major Proprietary Fund financial statements, providing additional information for the City's business-type activities. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to

account for the acquisition and maintenance of its fleet of vehicles, for its management of non-dispatch communications systems and for its self-insurance. The activities of the City's Internal Service Funds are reported in the Proprietary Fund financial statements. Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the Citywide financial statements and any related profits or losses are returned to the Activities which created them, along with any residual net assets of the Internal Service Funds.

Fiduciary Statements

The City is the trustee or agent for certain employee benefit funds, assessment districts and other entities. The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations. Examples of the City's Fiduciary Funds include the categories: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The only type of Fiduciary Funds the City has are the Agency funds: Employee Benefit and Liability Clearing, Special Assessments and, finally, Deposits.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

Citywide Financial Statements

This analysis focuses on the net assets of the City's Governmental Activities and Business-Type entities (Table 1), changes in net assets for the City's Governmental Activities and Business-Type entities (Table 2), and results of Governmental and Business Activities (Table 3 and Table 4 respectively). Results are presented in the Statement of Net Assets (the citywide balance sheet) and in the Statement of Activities (the citywide income statement).

Table 1
Governmental and Business-Type Net Assets
(In Millions)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Cash and investments	\$ 331	\$ 331	\$ 449	\$ 476	\$ 780	\$ 807
Other assets	88	84	186	168	274	252
Capital assets	552	544	538	547	1,090	1,091
Total assets	971	959	1,173	1,191	2,144	2,150
Long-term debt outstanding	221	229	253	265	474	494
Other liabilities	45	43	64	94	109	137
Total liabilities	266	272	317	359	583	631
Net assets:						
Invested in capital assets, net of debt	459	442	313	310	772	752
Restricted	162	166	1	1	163	167
Unrestricted	84	79	542	521	626	600
Total net assets	\$ 705	\$ 687	\$ 856	\$ 832	\$ 1,561	\$ 1,519

City Governmental Activities

The City's net assets from Governmental Activities increased to \$705 million in fiscal year 2006-07 from \$687 million in fiscal year 2005-06. This increase is the Change in Net Assets reflected in the Statement of Activities, as shown in Table 2, and is explained below:

- Capital assets net of depreciation increased as a result of capital spending on new City facilities. They are discussed in the Capital Assets section on page 23.
- Net assets invested in capital assets net of related debt were \$459 million in fiscal year 2006-07 an increase of \$17 million compared to the prior year. This was due to an

increase of \$8 million of capital assets and a reduction of \$8 million of related debt liabilities.

- Restricted net assets are the portion of net assets which are legally restricted by grantors, debt covenants, contract or law. As shown in Table 1, on June 30, 2007, restricted net assets totaled \$162 million. This is comprised of \$29 million restricted to the acquisition of capital assets, \$21 million for payment of debt service, \$100 million that may only be used for redevelopment activities (affordable housing and other redevelopment projects) and \$12 million restricted for other purposes. In fiscal year 2006-07, restricted net assets decreased by \$4 million compared to the prior year due primarily to the completion of several capital projects, such as the Senior Center, and the decline in debt service.
- Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations or for other purposes without constraints established by debt covenants or other legal requirements. Unrestricted net assets amounted to \$84 million on June 30, 2007. This is an increase of \$5 million from the prior year and is due primarily to the increases in cash, receivables and other assets.

Fiscal Year 2006-07 Governmental Activities Statement of Activities presents program expenses, program revenues and general revenues in detail. All elements in the Changes in Governmental Net Assets are summarized in Table 2 on the next page.

Table 2
Governmental and Business-Type Changes in Net Assets
(In Millions)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 22	\$ 23	\$ 505	\$ 523	\$ 527	\$ 546
Operating grants and contributions	5	5			5	5
Capital grants and contributions	5	4	25	1	30	5
General revenues:						
Taxes:						
Sales	43	38			43	38
Ad valorem property	50	39			50	39
Transient occupancy	11	10			11	10
Other	5	5			5	5
Motor vehicle in lieu	1	1			1	1
Contribution in lieu of taxes	15	13			15	13
Investment Earnings	14	12	19	19	33	31
Net (decrease) in fair value of investments	1	(6)	3	(11)	4	(17)
Rents and royalties		3	2	2	2	5
Other	3	4			3	4
Total revenues	<u>\$ 175</u>	<u>\$ 151</u>	<u>\$ 554</u>	<u>\$ 534</u>	<u>\$ 729</u>	<u>\$ 685</u>
Expenses:						
General administration	\$ 10	\$ 12			\$ 10	\$ 12
City clerk	1	1			1	1
City attorney	1	1			1	1
Human resources	2	2			2	2
Finance	6	6			6	6
Public works	29	27			29	27
Parks and recreation	13	12			13	12
Public safety:						
Police	41	39			41	39
Fire	32	32			32	32
Planning and inspection	5	6			5	6
Library	8	8			8	8
Interest on long term debt	12	13			12	13
Utilities:						
Electric -						
Retail			270	250	270	250
Wholesale			197	249	197	249
Water			21	20	21	20
Sewer			12	15	12	15
Water Recycling			2	1	2	1
Solid Waste			15	16	15	16
Cemetery			1	1	1	1
Sports and Open Space Authority						
Santa Clara Golf and Tennis Club			3	3	3	3
Santa Clara Convention Center			6	6	6	6
Total expenses	<u>\$ 160</u>	<u>\$ 159</u>	<u>\$ 527</u>	<u>\$ 561</u>	<u>\$ 687</u>	<u>\$ 720</u>
Increase (decrease) in net assets before transfers	15	(8)	27	(27)	42	(35)
Transfers in (out)	3	4	(3)	(4)		
Increase (decrease) in net assets	18	(4)	24	(31)	42	(35)
Net assets - 7/1	687	691	832	863	1,519	1,554
Net assets - 6/30	<u>\$ 705</u>	<u>\$ 687</u>	<u>\$ 856</u>	<u>\$ 832</u>	<u>\$ 1,561</u>	<u>\$ 1,519</u>

Summary points from Table 2 are as follows:

- In fiscal year 2006-07, Governmental Activities generated \$175 million in revenues, compared to the prior year's \$151 million, an increase of \$24 million. This was primarily due to increases in key revenue categories such as taxes, contribution in lieu of taxes, interest earnings.
- Governmental Activities expenditures were \$160 million, a \$1 million increase from the prior year.
 - General Administration department expenses were \$10 million, a decrease of \$2 million from the prior year. This was due to a decrease of \$1 million in overall costs for general governmental activities and an increase of \$1 million of General Administration expenses allocated to Business-type activities.
 - Police department expenses were \$41 million, an increase of \$2 million over the prior year. This was due to increase in salaries and benefits.
 - Fire Department expenses were \$32 million, no change from the prior year. This resulted from increases in salaries and benefits offset by savings from vacant positions.
- As a result of increased revenues and no change in expenditures, the Governmental Activities added \$18 million in net assets for the year. Net assets increased to \$705 million from the prior year's figure of \$687 million.
- In fiscal year 2006-07, Business-type Activities generated \$554 million in revenue compared to the prior year's \$534 million, an increase of \$20 million. This was due to the combination of increased demands for services, as well as the rate increases for the Electric and Water & Sewer utilities. In addition, the City reclassified some revenues to capital grants due to an accounting interpretation. This figure is \$25 million in 2006-07, and includes the capital gain on the sale of a piece of property by the Electric Utility to the City's Redevelopment Agency.
- Business-type Activities expenses declined from \$561 million in 2005-06 to \$527 million in 2006-07, primarily due to the decline in retail and wholesale power purchases and sales.
- As a result of increased revenues and declining expenses, the City's Business-type Activities added \$24 million.

Table 2 shows that total governmental revenues excluding transfers were up \$24 million in fiscal year 2006-07. General revenues increased by \$24 million while program revenues remained unchanged. The analysis of Business-type activities summarized in Table 2 is presented on pages 11 and 12.

As the Sources of Revenue, Chart 1 shows, of the total revenues from Governmental Activities including transfers (\$175 million in fiscal year 2006-07), \$43 million, or 25% of the City's fiscal year 2006-07 governmental revenues was from sales tax, \$50 million, or 29% from ad valorem property taxes, \$15 million or 8% from contribution in lieu of taxes, \$11 million or 6% from TOT, and \$14 million or 9% from Leases (included in Program Revenues). Property tax revenue increases can be attributed to the continued increase in residential property valuations, strong residential sales volume and the end of declines in valuations of the City's commercial and

industrial sectors. Sales tax revenue also improved in fiscal year 2006-07 reflecting strong consumer spending and some improvement in business-to-business activity in the local economy. Investment earnings increased \$2 million from \$12 million to \$14 million due to higher cash balances and unrecognized gains on the fair value of investments; nevertheless the City's policy is to hold investments to maturity, it does not expect those gains to be realized.

Chart 1
Governmental Activities

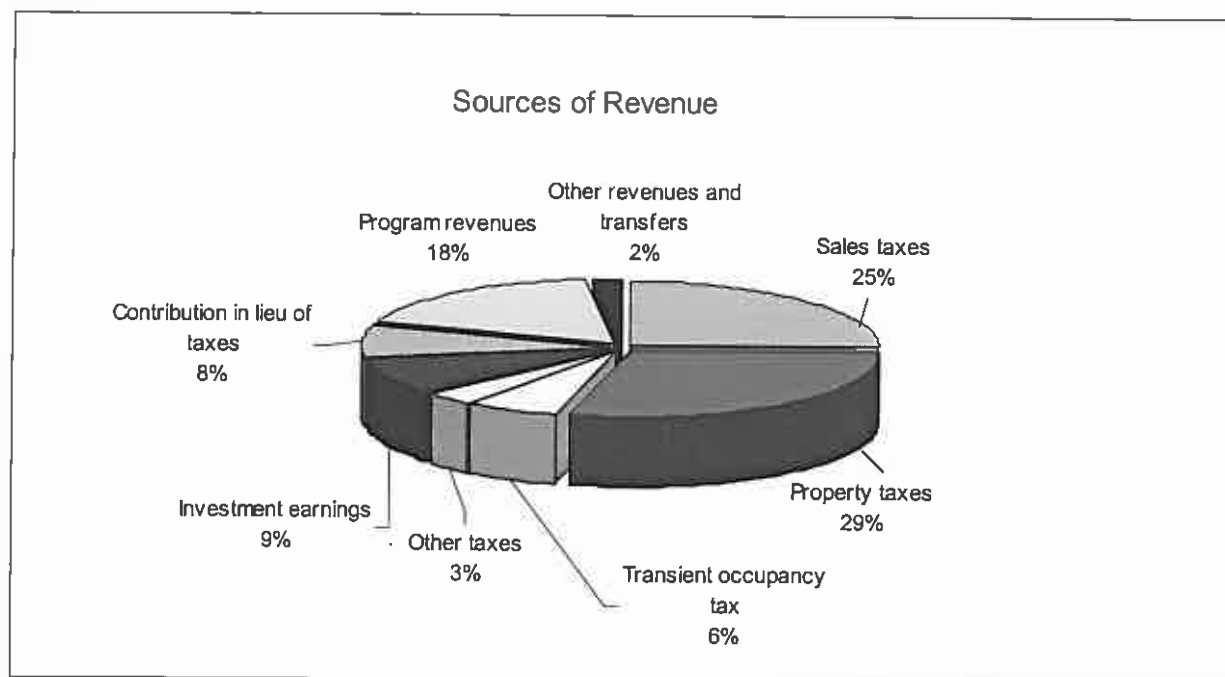


Table 3, on the next page, presents the total cost and net cost of each of the City's largest programs. Net cost is defined as total program cost less the revenues generated by those specific activities. It is common to see Governmental Activities as net cost generators, whereby costs of governmental activities are greater than the revenues they generate.

Table 3
Governmental Activities
(in Millions)

	Total Cost Of Services		Net Cost Of Services	
	2007	2006	2007	2006
General Administration	\$10	\$12	\$0	\$2
City Clerk	1	1	1	1
City Attorney	1	1	1	1
Human Resources	2	2	2	2
Finance	6	6	5	6
Public Works	29	27	23	20
Parks and Recreation	13	12	9	9
Public Safety:				
Police	41	39	39	37
Fire	32	32	30	29
Planning & Inspection	5	6	(1)	(1)
Library	8	8	7	7
Interest on Long Term Debt	12	13	12	13
Totals	<u>\$160</u>	<u>\$159</u>	<u>\$128</u>	<u>\$126</u>

Total costs of services increased \$1 million; net costs increased \$2 million in fiscal year 2006-07, due primarily to public works and police costs increasing. Public Works costs increased due to increase in salaries and benefits; police costs increased due to increases in salaries and benefits.

City Business Type Activities

Table 1 above also shows net assets of the City's business-type activities. In fiscal year 2006-07 net assets of the City's business-type activities increase \$24 million as explained below:

- Cash and Investments declined due to the settlement with Enron. Other assets increased by \$18 million due to an additional \$5 million of utility accounts receivable and \$13 million of investment in Electric and Sewer joint ventures. Capital assets declined due to the sale of a \$9 million parcel of land to the RDA.
- Investment in capital assets, net of debt increased \$3 million over the prior year due to the reduction in debt, the reduction in current liabilities, and the increase in other assets.
- Unrestricted net assets were \$21 million higher than last year's balance due to net income of \$12 million in the Electric Utility, net income of \$13 million in the Water and Sewer Utilities, offset by losses in the Water Recycling and Convention Center.

Table 2 above also presents Changes in Net Assets of Business-Type Activities. Total revenues increased \$20 million in fiscal year 2006-07 mainly due to revenues from Electric wholesale activities and grants and contributions, as well as the increase in fair value of investments. In fiscal year 2006-07, Charges for services were \$505 million, a decrease of \$18 million compared to the prior year. This was due to reclassification of capital grants and contributions because of an accounting rule interpretation.

Total expenses of Business-type activities declined \$34 million, mostly as a result of decreases in Electric Utility expenses.

- In fiscal year 2006-07 retail expenses of the Electric Utility were \$270 million, an increase of \$20 million over the prior year. This was due to the increased cost of power.
- The spread between wholesale power purchases and sales increased from \$6 million in 2005-06 to \$8 million in 2006-07. This improved margin contributed to a positive outcome for the utility.
- Water expenses increased slightly due to increases in the wholesale price of water purchased. Sewer utility expenses were \$12 million, an increase of \$3 million over the prior year. This was due to increasing costs of wastewater treatment.

Table 4, below, provides the total costs and net costs of each of the City's enterprise funds. Net cost is defined as total program cost less the revenues generated by each enterprise fund. In the case of enterprise funds, one should expect revenues to exceed costs, and these funds to be net generators of funds.

- In fiscal year 2006-07, retail net costs of the Electric Utility were \$18 million, a decrease from \$39 million over the prior year. This was due to increased revenues generated by increased loads and the rate increase for the utility. The cost was financed by a planned drawdown of reserves to allow for capital and operating expenses. Staff is monitoring the costs in fiscal 2007-08, to determine whether another rate increase is necessary, and will report to the City Council during the fiscal year 2007-08. With regard to wholesale revenues and expenses, the utility generated \$1 million more in revenues for the fiscal year 2006-07 than in 2005-06. This can also be seen in the income statement included in the section titled Major Proprietary Funds.
- Sewer net expenses and revenues increased from a net loss of \$2 million in 2005-06 to \$12 net income in 2006-07, due mostly to the rate increases in the utility's structure, as well as to the increase in equity position in the San Jose/Santa Clara Water Pollution Control Plant.

Table 4
Business-Type Activities
(in Millions)

	Total Cost Of Services		Net Cost Of Services	
	2007	2006	2007	2006
Utilities:				
Electric -				
Retail	\$270	250	\$18	\$39
Wholesale	197	249	(7)	(6)
Water	21	20		
Sewer	12	15	(11)	2
Water Recycling	2	1	1	
Solid Waste	15	16		1
Cemetery	1	1		
Sports and Open Space Authority			(1)	(1)
Santa Clara Golf and Tennis Club	3	3	(1)	
Santa Clara Convention Center	6	6	(1)	2
Totals	<u>\$527</u>	<u>\$561</u>	<u>(\$2)</u>	<u>\$37</u>

The City's Fund Financial Statements

Turning attention from the City-wide (GASB 34) statements to the fund-specific statements, the analysis can be subdivided into the Governmental Fund (pages 32-34) and Enterprise Funds (pages 38-43).

Governmental Funds

As of June 30, 2007, the City's governmental funds reported combined fund balances of \$310 million, which is an increase of \$1.5 million compared to last year. The increase of \$10 million in the General Fund balance resulted mostly from the excess of direct revenues over expenses, in turn due to increased revenue in Sales taxes, property taxes, TOT, Contributions in Lieu of Taxes (paid by the utilities), and increase in fair value of investments. The Redevelopment Agency Fund's balance decreased \$7 million to fund capital projects of \$15 million. Other governmental funds fund balances decreased \$1.5 million in fiscal year 2006-07.

Governmental fund revenues increased to \$193 million this year from the prior year's total of \$163 million. Of the total \$30 million increase, the General Fund increased \$19 million due to reasons cited above. RDA increased \$10 million due primarily to two factors: an increase in tax increment receipts due to increased property valuations, and the cessation of the ERAF payments to the State of California.

Governmental fund expenditures were \$195 million in fiscal year 2006-07, an increase of \$8 million. Of this amount, \$126 million was expended by the General Fund, \$43 million by the Redevelopment Agency Fund, and \$26 million by other governmental funds.

Enterprise Funds

Enterprise Fund net assets totaled \$856 million at the end of the fiscal year 2006-07, an increase of \$24 million over the \$832 million reported in the prior fiscal year. Enterprise operating revenues were \$289 million this year, up \$32 million from last year's revenues of \$257 million, due mostly to increased rates across all nine enterprise funds. Enterprise Fund operating expenses were \$312 million this year, up \$7 million from the prior year's \$305 million, due mostly to increases evenly across salaries, materials, amortization and depreciation.

Non-operating revenues were \$263 million, down \$36 million from the prior year due mostly to a decline in wholesale power sales. Non-operating expenses were \$215 million, down \$63 million from the prior year due mostly to a decline in wholesale power purchases. Other line items of note in the non-operating category include: an increase of \$3 million in fair value of investments; last year showed a decline of \$11 million, and the difference is that there is less of a write down of fair value of securities this year than last year, as required under GASB 31. In addition, the enterprise funds reported a gain of \$8 million upon retirement of assets due to the sale of a piece of property to the RDA, compared to last year's \$152 thousand loss, and \$14 million reported as equity in net income in the joint powers agencies, as opposed to last year's \$2 million loss.

Analysis of Major Governmental Funds

General Fund

Revenues

General Fund direct revenues of \$134 million were \$18.5 million more than the prior fiscal year, principally due to the reasons set forth below.

Sales Tax

Sales tax is the largest revenue source for the City's General Fund and accounts for approximately 32% of direct General Fund revenues. Sales tax revenue for fiscal year 2006-07 was \$43 million, an increase of \$5 million, or 13.4% over the \$38 million in fiscal year 2005-06. This fiscal year's strong showing is a direct result of the improving local economy. This compares to the maximum level of \$51 million reached in 2000-01 and the recessionary low of \$34 million in 2002-03. Specifically, the areas showing greatest strength are: general retail sales, especially in department store sales (up 21.7%), food product sector, especially restaurant sales (up 7.4%), transportation, especially new auto sales (up 6.3%), and the continued upturn in the business-to-business sector, chiefly in electronic equipment sales (up 7.4%), were the major contributors to this year's results.

Property Tax

Property tax revenue for fiscal year 2006-07 was \$26 million compared to \$22 million in fiscal year 2005-06, an increase of approximately \$4 million or 15.4%. This was the first reduction in ERAF payments made during the time 2003-04 through 2005-06 to the State of California, and the reduction resulted in an increase in property tax payments to the General Fund of \$2.2 million. In addition, the City realized increased continued strength of the local residential real

estate market along with the stabilization of the commercial and industrial sectors, which had experienced negative reassessments over the last few years. Lastly, the City continued to receive property tax payments in lieu of some of its Vehicle-in-Lieu Fee revenues as per the State budget resolution.

Other Taxes

Revenue from other taxes was \$15 million in fiscal year 2006-07 compared with approximately \$14 million in fiscal year 2005-06, an increase of 5.6%. The major reason for this was an increase in the Transient Occupancy Tax from \$10 million in fiscal year 2005-06 to \$11 million in fiscal year 2006-07, an increase of 9.1%. This was due to improved occupancy rates coupled with increases in room rates at hotels/motels and is an indication that the local travel sector continues to improve.

Licenses, Permits and Fines and Penalties

Revenues for licenses, permits, fines and penalties were \$5 million in fiscal year 2006-07 compared with \$5 million in fiscal year 2005-06. These figures reflect a decrease in construction activity linked to building and related permits. This is further confirmed by the flattening seen in the sales tax figures for building materials, both retail and wholesale.

Charges for Services

Charges for Services were \$19 million in fiscal year 2006-07 compared with \$18 million in fiscal year 2005-06, an increase of approximately \$1 million or 5.5%. The primary source of this revenue growth came from Interdepartmental Service Charges and can be attributed to an increase in the reimbursement rate for services provided to non-General Fund departments.

Contribution In-lieu of Taxes (CLT)

Contribution in lieu of taxes was approximately \$15 million in fiscal year 2006-07, an increase of \$2 million, or 15.3% over fiscal 2005-06. Because of the rate increases in the electric, sewer and water utilities for 2006-07, the required contributions to the City's General Fund, as required by the City Charter, to be paid in lieu of property taxes, rose with the increased revenues to the utilities. The results also reflect slightly higher demand for electrical power and water.

Interest and Rents

Interest and rent revenues were \$9 million in fiscal year 2006-07 compared to \$7 million in fiscal year 2005-06, an increase of approximately \$2 million or 28.5%. The main reasons for the increase are as follows: an increase in interest income of \$1 million and an increase in lease revenues of \$224 thousand, in which the revenues to the City rise as the tenant revenues increase.

Expenditures

General Fund direct expenditures in fiscal year 2006-07 were \$126 million compared with \$122 million in fiscal year 2005-06, an increase of \$4 million, 3.2%. The major reasons for increases in expenditures are:

Salary and Benefits

Salary and benefits expenditures were \$102 million in fiscal year 2006-07 compared with \$96 million in fiscal year 2005-06, an increase of \$6 million or 6.2%. The increase is primarily due to the increased cost of salaries and retirement benefits and was partially offset by the City's continued hiring freeze. The total full-time benefited employee count in General Fund was 779.4 in fiscal year 2006-07, a net decrease of 0.67 full-time equivalent (FTE) position compared with 780.07 FTE positions in fiscal year 2005-06.

All Other Operating Expenditures

Other operating expenditures, including materials, services, and supplies, internal service fund charges and minor capital outlays, were \$25 million in fiscal year 2006-07 compared with \$26 million in the prior fiscal year, an decrease of \$1 million or 4%. Most of this was a decline in materials, services and supplies (including contractual services) as the City continued to implement various cost saving measures in fiscal year 2006-07.

Transfers

Transfers out of the General Fund decreased to \$12 million in fiscal year 2006-07 from \$17 million, compared to the prior fiscal year, principally due to less transfers to the Capital Project Funds. Debt service at \$6 million remains a major transfer out.

Fund Balance

As of June 30, 2007, total General Fund fund balance was \$77 million, up \$10 million from fiscal year 2005-06. The Table 5A shows the breakdown of various components from the prior fiscal year.

Table 5A
General Fund Balance
(in Millions)

	<u>2007</u>	<u>2006</u>	<u>Net Change</u>
Encumbrance, advances to other funds, and inventory	\$ 22.4	\$ 19.7	\$ 2.7
Designated for working capital	18.1	15.1	3.0
Designated for capital projects	14.1	11.3	2.8
Designated for land sale proceeds	16.9	16.4	0.5
Designated for building inspections	5.6	5.0	0.6
Undesignated	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total General Fund Balance	<u>\$ 77.1</u>	<u>\$ 67.5</u>	<u>\$ 9.6</u>

General Fund Budget Comparison

Included in the Required Supplementary Information is the General Fund Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Legal Basis) for the year ended June 30, 2007. During the year, Council took action to amend the adopted General Fund budget.

The following is a summary of the impact of these actions:

Table 5B
General Fund Budget for the Year Ended June 30, 2007
(in Millions)

	Original Budgeted Amount	Final Budgeted Amount	Net Change
Revenues	\$ 122.8	\$ 123.0	\$ 0.2
Expenditures	128.9	130.5	1.6
Other Financing Sources (Uses)	2.7	1.6	(1.1)

The increase in budgeted revenues was due to unanticipated receipts that resulted in higher expenditure. The increase in budgeted expenditures was due to appropriation of unanticipated revenues such as grants and to budget amendments for special programs and events. The decrease in budgeted other financing sources primarily due to a transfer out to the Workers' Compensation Fund from the Working Capital (Emergency) Reserve balances.

Redevelopment Agency Fund

The purpose of the Redevelopment Agency (Agency) is to eliminate blight in its project areas, both of which are in the City, while ensuring an adequate stock of low and moderate-income housing. The Agency's power to issue debt payable out of the incremental property taxes expected to be realized as a result of its redevelopment activities has expired as of January 1, 2004. The Agency's power of eminent domain in Bayshore North and University project areas expired as of December 31, 1994. The agency may enter into development agreements with developers and others to further its purpose. The Agency's operations are funded primarily by property tax increments generated by increased assessments in the redevelopment areas.

The Redevelopment Agency Fund accounts for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas, as well as debt service expenditures on the Agency's debt.

The Agency's revenues were \$46 million in fiscal year 2006-07, an increase of \$10 million over the previous fiscal year. Property tax increment revenues were \$24 million in fiscal year 2006-07, an increase of \$7 million over the previous fiscal year due mainly to two factors: an increase in property valuation in the Agency's project areas and the cessation of \$2.3 million in State Education Revenue Augmentation Reform Fund (ERAF) collections by the State of California. For the first time since 2002-03 the Agency did not have to transfer monies to the ERAF to help balance the State budget. Revenue from use of assets, primarily lease revenues, were \$20 million in fiscal year 2006-07, up \$172 thousand compared to last year. An adjustment in the fair market value of pooled cash and investment increased this item to \$548 thousand, an increase of \$2 million over the prior year.

Agency expenditures were \$43 million in fiscal year 2006-07, an increase of \$15 million. This was due primarily to an increase in capital spending of \$8 million and \$3 million in principal payments for debt service.

The Agency's fiscal year end fund balance of \$169 million may be used only for redevelopment purposes; of this amount, \$68 million is reserved for encumbrances, debt service, housing and land held for development and \$101 million is designated for capital projects and supplemental housing.

Other Governmental Funds

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

Analysis of Enterprise Funds

Electric Utility (Silicon Valley Power)

Retail operating revenues were \$229 million in fiscal year 2006-07 compared with \$202 million in fiscal year 2005-06, an increase of approximately 13.4%. The main reason for the increase was the full year effect of a rate increase, discussed below, and higher power consumption by the industrial/commercial sector.

In December 2005, the City Council adopted a 5% rate increase to be effective January 2006 and a further 5% increase to be effective July 2006. The primary reason for this increase is rise in cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Area Power Administration.

Retail operating expenses were \$253 million in fiscal year 2006-07 compared with \$249 million in fiscal year 2005-06, an increase of \$4 million or 1.6%. The operating expenses were higher primarily due to increases salaries and benefits (5.1%), purchased power costs (1.0%), and operating and depreciation expenses (1.4%).

Revenues of wholesale power operations decreased to \$204.7 million in fiscal year, down from \$255 million in fiscal year 2005-06. The cost of wholesale power purchases decreased as well from \$250 million in fiscal year 2005-06 to \$197 million in current fiscal year. The wholesale power market has stabilized in recent years compared to the peak years of the power crisis experienced by California in 2001.

Interest revenues were reported at \$18 million in fiscal year 2006-07, relatively unchanged from the prior year. Interest expense declined slightly from \$12.13 million to \$12.09 million.

Other revenues increased from \$9 million in 2005-06 to \$10 million in 2006-07. Most of these revenues are the Public Benefit Program receipts (\$7 million) and developer contributions (\$2.5 million) for their share of improvements to the system.

In fiscal year 2005-06, the Provision for Disputed Schedule Coordination Services (SCS) was further reduced by \$11 million resulting from the settlement of the dispute between the City and Pacific Gas and Electric Company (PG&E). The City provided \$24 million for the SCS dispute in fiscal year 2003-04 that was reduced by \$13 million in fiscal year 2004-05. The additional

reduction of \$11 million in the current fiscal year decreased the Provision for Disputed Schedule Coordination Services to zero balance, which is reflected in the 2006-07 Statement of Revenues, Expenses and Changes in Fund Assets.

The gain on retirement of assets of \$8 million is due to the sale of a real estate parcel owned by the electric utility to the City's Redevelopment Agency.

The Electric Utility Fund had \$658 million in net assets at June 30, 2007, an increase of \$12 million from the prior fiscal year. Of this amount, \$236 million was invested in capital assets, net of related debt and \$422 million was unrestricted. The Electric Utility Fund is a participant in a number of joint ventures such as Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), M-S-R Public Power Agency (MSR), and Central California Power Agency No. 1 (CCPA).

Water Utility

Operating revenues were \$21 million in fiscal year 2006-07 compared with \$19 million in fiscal year 2005-06, an increase of 10.5%. A 7.0% water rate increase in fiscal year 2006-07 and an increase in customers' water usage contributed to higher revenues.

Operating expenses were \$22 million in fiscal year 2006-07 compared with \$20 million in fiscal year 2006-07, an increase of 10%. The major reason for the higher expenditures was the rise in purchase cost of treated water from the wholesale water agencies as a result of increases in wholesale water rates. This is reflected in the materials, supplies and services category which showed \$16 million in expenses in fiscal year 2006-07 compared with \$14.6 million in fiscal year 2005-06, an increase of 9.6%.

The Water Utility Fund's net assets at June 30, 2007 were \$41 million, an increase of \$1 million over net assets from the prior fiscal year.

Sewer Utility

Operating revenues of the Sewer Utility increased to \$13 million in fiscal year 2006-07, up from \$12 million in fiscal year 2005-06, an increase of 8%. A 6% sewer rate increase approved for fiscal year 2006-07 and a minor increase in flow for commercial/industrial discharges accounted for higher operating revenues.

Operating expenses were \$12 million in fiscal year 2006-07 compared with \$11 million in fiscal year 2005-06. The main reason for this increase was materials, supplies and services, which increased \$1.7 million due mainly to charges by the San Jose Santa Clara Water Pollution Control Plant, which provides treatment and disposal of the City's sewage. The investment in capital assets in fiscal year 2006-07 was \$10 million, net of depreciation, an increase of \$109 thousand from prior fiscal year.

The Sewer Fund, together with the City of San Jose, owns the San Jose/Santa Clara (SJSC) Water Pollution Control Plant (WPCP), which is administered by the City of San Jose. The Fund's ownership share is approximately 16.1% of the assets, capital and operating costs. In fiscal year 2006-07 the City of San Jose reported that the Fund's equity in the Plant went from a \$4 million deficit to an equity of \$10 million, an increase of \$15 million. Most of the reason for this increase is the contributed capital the City reports in this category, which is the City's

contribution to the capital budget for the WPCP. The Sewer Fund reports these changes in equity in its statement of activities as operating revenues and expenses.

Water Recycling

Operating revenues increased by \$259 thousand to \$1 million in 2006-07 from \$959 thousand in 2005-06. Operating expenses were \$672 thousand, an increase of \$27 thousand. Net assets as of June 30, 2007 were \$1 million.

Solid Waste

Operating revenues were \$16 million in fiscal year 2006-07 compared with \$15 million in fiscal year 2005-06, mainly due to rate increases across various categories, implemented during the year. Operating expenses were \$15 million in fiscal year 2006-07, an increase of \$1 million increase from the prior year. Net assets (deficit) at June 30, 2007 were (\$3) million.

Cemetery

This Fund accounts for the Mission City Memorial Park's operations. Operating revenues were \$564 thousand in fiscal year 2006-07, reflecting a \$54 thousand increase from prior fiscal year. Operating expenses were \$721 thousand in fiscal year 2006-07, a decrease of \$35 thousand compared to fiscal year 2005-06. Net assets at June 30, 2007 were \$(262) thousand. This fund usually runs a deficit in its operation and capital activities, which is funded by an advance from the General Fund.

Sports and Open Space Authority

This Fund accounts for the acquisition and preservation of open space within the City and the development of local sports activities. Operating revenues were \$1 million in fiscal year 2006-07, up slightly from the prior fiscal year. Net assets at June 30, 2007 were \$4 million.

Santa Clara Golf and Tennis Club

This Fund accounts for the operations of the City's public golf course. Operating revenues were \$3 million in fiscal year 2006-07 compared with \$3 million in fiscal year 2005-06. Operating expenses were \$3 million in fiscal year 2006-07 up slightly from the prior fiscal year. Net assets at June 30, 2007 were \$6 million.

Santa Clara Convention Center

This Fund accounts for the operations of the Santa Clara Convention Center. Operating revenues were \$4 million in fiscal year 2006-07 compared with \$4.0 million in fiscal year 2005-06. Operating expenses decreased slightly to \$6 million in fiscal year 2006-07 compared with fiscal year 2005-06. Net assets at June 30, 2007 were \$21 million, all of which were invested in capital assets.

CAPITAL ASSETS

At June 30, 2007 the City's capital assets, net of depreciation, stood at \$551 million in Governmental Activities, and \$538 million, net of depreciation, in Business-Type Assets, as shown in Table 6 below. They were invested in a broad range of categories, as shown in Table 6 below:

Table 6
Capital Assets at Fiscal Year End June 30, 2007
(In Millions)

	2007	2006	Net Change
<i>Governmental Activities:</i>			
Land	\$ 112	\$ 105	\$ 7
Construction in Progress	12	26	(14)
Land Improvements	17	17	0
Buildings and Improvements	148	129	19
Machinery and Equipment	67	63	4
Infrastructure	401	391	10
Less accumulated depreciation	(206)	(187)	(19)
Totals	\$ 551	\$ 544	\$ 7
<i>Business-type Activities:</i>			
Land & Improvements	\$ 16	\$ 17	\$ (1)
Construction in Progress	5	6	(1)
Buildings and Improvements	832	820	12
Machinery and Equipment	15	15	0
Less accumulated depreciation	(330)	(311)	(19)
Totals	\$ 538	\$ 547	\$ (9)

The increase in the Governmental Funds asset base was due primarily to the completion of the Senior Center. This can be seen in the decrease in Construction in Progress and the increase in Buildings and Improvements, as the Senior Center was completed and reclassified in the fixed asset base of the City. In addition, infrastructure improvements increased \$10 million, \$6 million in street improvements and \$4 million for the additional phases of the San Tomas Aquino/Saratoga Creek Trail, which were completed by the end of fiscal year 2006-07 million.

The decrease in the Enterprise Funds asset base was due primarily to the sale of a parcel of land by the Electric Utility to the Redevelopment Agency for \$9 million. Other increases in Buildings and Improvements included the contribution to the San Jose/Santa Clara Water Pollution Control Plan of \$10 million, and various water and sewer, and recycled water projects, as well as the beginning of the 5-year capital refurbishment program of the substations for the Electric Utility.

The Capital Improvement Project Budget for fiscal year 2006-07 and Five Year Financial Plan for fiscal year 2007-08 through fiscal year 2011-12 contain more detailed discussions of Capital Projects planned for the City of Santa Clara.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 11 to the financial statements. The City did not issue new debt during the year; all activity is due to scheduled principal and interest payments. At June 30, the City's debt was comprised of the following:

Table 7
Outstanding Debt at Fiscal Year End June 30, 2007
(In Millions)

	Balance June 30, 2007	Balance June 30, 2006	Net Change
Governmental Activity Debt:			
Special Assessment Debt with City commitment	\$ 5	\$ 6	\$ (1)
Redevelopment Tax Allocation Bonds	136	140	(4)
Certificates of Participation 1997	13	13	
Insurance Funding Bonds Series 1997	20	20	
Certificates of Participation 2002A	23	24	(1)
Refunding Certificates of Participation, Series 2002B	24	26	(2)
Business-type Debt:			
Electric Utility Revenue Bonds, net of unamortized discount	253	265	(12)
State Water Resource Control Board Loan	nil	nil	nil
Total Debt	\$ 474	\$ 494	\$ (20)

SPECIAL ASSESSMENT DISTRICT DEBT

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2007, a total of \$6 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the City of Santa Clara Finance Department, at 1500 Warburton Avenue, Santa Clara, CA California 95050, telephone (408) 615-2340.

Basic Financial Statements

<p style="text-align: center;">CITY OF SANTA CLARA STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES</p>
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The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects, Debt Service and Permanent Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating interfund transactions and balances. The City's Business-Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net (expense) revenue of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-Type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City and the Redevelopment Agency of the City of Santa Clara, the City of Santa Clara Sports and Open Space Authority, and the City of Santa Clara Public Facilities Financing Corporation, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for these Agency activities.

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**CITY OF SANTA CLARA
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and investments (Note 8):			
Pooled cash and investments	\$ 193,840,525	\$ 414,068,732	\$ 607,909,257
Investments with fiscal agent	28,696,951	13,261,909	41,958,860
Receivables (net of allowance for uncollectibles):			
Accounts	3,153,694	55,291,059	58,444,753
Interest	2,658,264	4,819,120	7,477,384
Intergovernmental	5,496,290	-	5,496,290
Internal balances (Note 9D)	(1,236,405)	1,236,405	-
Materials, supplies and prepaids	1,259,470	11,250,221	12,509,691
Land held for redevelopment (Note 2H)	7,103,770	-	7,103,770
Total Current Assets	240,972,559	499,927,446	740,900,005
Noncurrent Assets			
Cash designated for construction (Note 8)	92,092,870	2,359,690	94,452,560
Investment with fiscal agent (Note 8)	16,588,433	14,899,771	31,488,204
Deposits (Note 8)	-	4,292,082	4,292,082
Internal balances (Note 9D)	5,710,044	(5,710,044)	-
Long Term Special assessments	4,110,000	-	4,110,000
Long Term Loans, net of reserves (Note 2AA)	59,129,455	-	59,129,455
Capital assets (Note 10):			
Land and construction in progress	123,971,524	20,757,565	144,729,089
Capital assets being depreciated, net	427,513,096	517,382,189	944,895,285
Investment in joint ventures (Note 13)	-	115,559,625	115,559,625
Other	327,657	4,028,762	4,356,419
Total Noncurrent Assets	729,443,079	673,569,640	1,403,012,719
Total Assets	970,415,638	1,173,497,086	2,143,912,724
LIABILITIES			
Current Liabilities			
Accrued liabilities	27,405,086	51,086,742	78,491,828
Interest payable	3,275,355	4,517,792	7,793,147
Accrued compensated absences (Note 2K)	1,522,502	412,578	1,935,080
Unearned revenue	3,326,478	476,112	3,802,590
Landfill closure liability (Note 12)	-	485,000	485,000
Long-term debt-Due within one year (Note 11)	9,470,000	12,440,021	21,910,021
Total Current Liabilities	44,999,421	69,418,245	114,417,666
Noncurrent Liabilities			
Accrued compensated absences (Note 2K)	9,817,996	2,817,702	12,635,698
Landfill closure liabilities (Note 12)	-	4,397,471	4,397,471
Long-term debt-Due in more than one year (Note 11)	210,990,000	240,856,976	451,846,976
Total Noncurrent Liabilities	220,807,996	248,072,149	468,880,145
Total Liabilities	265,807,417	317,490,394	583,297,811
NET ASSETS (Note 19)			
Invested in capital assets, net of related debt	458,933,416	313,109,787	772,043,203
Restricted for:			
Capital projects	28,732,975	-	28,732,975
Debt service	21,090,818	-	21,090,818
Redevelopment activities	99,314,750	-	99,314,750
Other purposes	12,267,339	1,118,627	13,385,966
Total Restricted Net Assets	161,405,882	1,118,627	162,524,509
Unrestricted Net Assets	84,268,923	541,778,278	626,047,201
Total Net Assets	\$ 704,608,221	\$ 856,006,692	\$ 1,560,614,913

See accompanying notes to basic financial statements.

**CITY OF SANTA CLARA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:					
General Administration	\$ 18,853,772	\$ (8,984,497)	\$ 9,340,399	\$ 167,772	\$ -
City Clerk	719,670	-	6,282	43,813	-
City Attorney	1,078,956	-	7,775	-	-
Human Resources	1,745,290	-	-	-	-
Finance	6,210,867	-	717,009	12,000	-
Public Works	28,769,855	-	1,543,658	652,117	3,862,258
Parks and Recreation	12,828,445	-	2,406,715	102,413	1,232,608
Public Safety:					
Police	41,104,758	-	1,628,416	581,457	-
Fire	32,183,232	-	1,823,620	828,594	-
Planning & Inspection	5,082,531	-	4,114,022	1,704,258	-
Library	8,105,589	-	216,876	639,326	-
Interest on long term debt	12,338,041	-	-	-	-
Total Governmental Activities	169,021,006	(8,984,497)	21,804,772	4,731,750	5,094,866
Business-type Activities:					
Utilities:					
Electric -					
Retail	263,980,372	5,678,658	239,326,105	-	12,005,921
Wholesale	197,076,082	-	204,723,026	-	-
Water	19,863,304	1,534,032	21,700,850	-	-
Sewer	11,371,465	810,168	13,576,888	-	9,601,400
Water Recycling	2,321,595	-	1,218,413	-	285,953
Solid Waste	14,590,755	916,804	15,623,513	-	-
Cemetery	666,785	41,962	564,440	-	-
Sports and Open Space Authority	17,215	2,873	1,317,265	-	-
Santa Clara Golf and Tennis Club	2,590,738	-	3,199,768	-	-
Santa Clara Convention Center	6,003,011	-	4,085,547	-	2,568,489
Total Business-type Activities	518,481,322	8,984,497	505,335,815	-	24,461,763
Total	\$ 687,502,328	\$ -	\$ 527,140,587	\$ 4,731,750	\$ 29,556,629

General Revenues:

Taxes:
Sales
Ad valorem property
Transient occupancy
Other
Intergovernmental, unrestricted:
Motor vehicle in-lieu
Contribution in lieu of taxes
Investment earnings
Net (decrease) in the fair value of investments
Rents and royalties
Other
Transfers (Note 9A)

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See accompanying notes to basic financial statements.

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Business-Type Activities	Total
\$ (361,104)	\$ -	\$ (361,104)
(669,575)	-	(669,575)
(1,071,181)	-	(1,071,181)
(1,745,290)	-	(1,745,290)
(5,481,858)	-	(5,481,858)
(22,711,822)	-	(22,711,822)
(9,086,709)	-	(9,086,709)
 (38,894,885)	-	 (38,894,885)
(29,531,018)	-	(29,531,018)
735,749	-	735,749
(7,249,387)	-	(7,249,387)
(12,338,041)	-	(12,338,041)
 (128,405,121)	-	 (128,405,121)
 -	(18,327,004)	 (18,327,004)
-	7,646,944	-
-	303,514	303,514
-	10,996,655	10,996,655
-	(817,229)	(817,229)
-	115,954	115,954
-	(144,307)	(144,307)
-	1,297,177	1,297,177
-	609,030	609,030
-	651,025	651,025
 -	 2,331,759	 2,331,759
 (128,405,121)	 2,331,759	 (126,073,362)
 43,175,995	-	 43,175,995
49,736,192	-	49,736,192
10,542,290	-	10,542,290
4,731,113	-	4,731,113
 684,157	-	 684,157
14,722,138	-	14,722,138
14,369,002	19,468,686	33,837,688
1,553,077	3,120,540	4,673,617
309,577	2,164,326	2,473,903
2,687,507	-	2,687,507
3,094,700	(3,094,700)	-
 145,605,748	 21,658,852	 167,264,600
 17,200,627	 23,990,611	 41,191,238
687,407,594	832,016,081	1,519,423,675
 \$ 704,608,221	 \$ 856,006,692	 \$ 1,560,614,913

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CITY OF SANTA CLARA FUND FINANCIAL STATEMENTS
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The funds described below were determined to be Major Funds by the City in fiscal year 2006-07. Individual non-major funds may be found in the Supplementary section.

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds, and the related expenditures.

REDEVELOPMENT AGENCY FUND

The Redevelopment Agency Fund accounts for the construction or acquisition of public improvements of the Agency; housing set aside funds received from Agency tax increment for the purpose of developing low to moderate income housing; and for monies for the payment of Agency long-term obligations which are financed by tax increment and lease revenues.

**CITY OF SANTA CLARA
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2007**

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments (Note 8):				
Pooled cash and investments	\$ 59,762,538	\$ 67,968,279	\$ 51,519,819	\$ 179,250,636
Investments with fiscal agent - current	-	5,733,267	2,986,833	8,720,100
Cash designated for construction	-	88,605,965	3,486,905	92,092,870
Receivables (net of allowance for uncollectibles):				
Accounts	2,844,030	-	43,697	2,887,727
Interest	1,528,499	837,719	135,300	2,501,518
Loans	645,742	50,519,910	11,715,671	62,881,323
Special assessments	-	-	4,110,000	4,110,000
Intergovernmental	2,303,237	255,190	2,937,863	5,496,290
Due from other funds (Note 9B)	1,674,640	-	12,330	1,686,970
Materials, supplies and prepaids	938,460	-	-	938,460
Land held for redevelopment (Note 2H)	-	7,103,770	-	7,103,770
Investments with fiscal agent - noncurrent (Note 8)	-	9,810,243	6,778,190	16,588,433
Advances to other funds (Note 9C)	14,668,369	-	-	14,668,369
Other	24,407	303,250	-	327,657
Total Assets	\$ 84,389,922	\$ 231,137,593	\$ 83,726,608	\$ 399,254,123
LIABILITIES				
Accrued liabilities	\$ 5,348,958	\$ 1,602,834	\$ 1,787,113	\$ 8,738,905
Interest payable	-	645,742	-	645,742
Accrued compensated absences (Note 2K)	1,505,600	-	-	1,505,600
Due to other funds (Note 9)	-	-	112,854	112,854
Deferred revenue	416,104	50,927,299	18,328,471	69,671,874
Advances from other funds (Note 9B)	-	8,958,325	-	8,958,325
Total Liabilities	7,270,662	62,134,200	20,228,438	89,633,300
FUND BALANCES				
Reserved for encumbrances	765,149	7,249,570	4,416,015	12,430,734
Reserved for debt service	-	10,213,707	10,967,111	21,180,818
Reserved for low and moderate income housing	-	32,756,802	-	32,756,802
Reserved for special programs	1,745,599	-	5,636,058	7,381,657
Reserved for inventory, petty cash and receivables	5,215,083	-	-	5,215,083
Reserved for advances	14,668,369	-	-	14,668,369
Reserved for land held for redevelopment	-	7,103,770	-	7,103,770
Unreserved	-	-	-	-
Designated for working capital	18,133,786	-	-	18,133,786
Designated for capital projects	-	-	-	-
Reported in:				
General fund	14,060,909	-	-	14,060,909
Special revenue funds	-	-	7,398,384	7,398,384
Capital projects funds	-	100,967,940	35,445,785	136,413,725
Designated for investment of land sale proceeds	16,956,005	-	-	16,956,005
Designated for supplemental housing	-	10,711,604	-	10,711,604
Designated for building inspection and other	5,574,360	-	-	5,574,360
Undesignated:				
Reported in:				
General fund	-	-	-	-
Special revenue funds	-	-	(365,183)	(365,183)
Total Fund Balances	77,119,260	169,003,393	63,498,170	309,620,823
Total Liabilities and Fund Balances	\$ 84,389,922	\$ 231,137,593	\$ 83,726,608	\$ 399,254,123

See accompanying notes to basic financial statements.

CITY OF SANTA CLARA
Reconciliation of Fund Balances to Governmental Activities Net Assets
June 30, 2007

Governmental fund balance from prior page	\$ 309,620,823
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Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	551,484,620
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ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal Service Funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	14,589,889
Cash and investments with fiscal agent	19,976,851
Accounts receivable	265,967
Interest receivable	156,746
Materials, supplies and prepaids	321,010
Accounts payable	(18,666,181)
Compensated absences	(133,566)
Internal balances	(2,810,521)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	66,345,396
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LONG TERM LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Reserve against conditional grant balances	(3,751,868)
Long-term debt	(220,460,000)
Interest payable	(2,629,613)
Non-current portion of compensated absences	(9,701,332)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ 704,608,221</div>
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**CITY OF SANTA CLARA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Sales	\$ 43,175,995	\$ -	\$ -	\$ 43,175,995
Ad valorem	25,484,238	24,251,954	-	49,736,192
Transient occupancy	10,542,290	-	-	10,542,290
Other	4,475,100	-	1,161,013	5,636,113
Licenses, permits, fines, and penalties	5,198,725	-	-	5,198,725
Intergovernmental	2,014,581	-	7,670,033	9,684,614
Charges for services	18,783,895	-	1,633,500	20,417,395
Contributions in-lieu of taxes	14,722,138	-	-	14,722,138
Interest and rents	8,694,692	19,740,895	1,519,072	29,954,659
Net increase in the fair value of investment:	868,511	547,727	136,839	1,553,077
Other	110,578	1,177,935	1,268,680	2,557,193
Total Revenues	134,070,743	45,718,511	13,389,137	193,178,391
EXPENDITURES				
Current:				
General Administration	12,747,534	14,057,255	2,448,486	29,253,275
City Clerk	755,101	-	-	755,101
City Attorney	1,230,246	-	-	1,230,246
Human Resources	1,752,461	-	-	1,752,461
Finance	6,223,681	-	-	6,223,681
Public Works	14,087,870	-	2,924,721	17,012,591
Parks and Recreation	11,136,361	-	349,280	11,485,641
Public Safety:				
Police	37,000,105	-	450,333	37,450,438
Fire	29,890,147	-	266,688	30,156,835
Planning & Inspection	4,814,225	-	-	4,814,225
Library	6,593,817	-	302,773	6,896,590
Capital outlay	-	15,403,530	11,508,229	26,911,759
Debt service (Note 11)				
Principal payments	-	4,630,000	4,355,000	8,985,000
Interest and fiscal fees	-	8,680,654	3,120,130	11,800,784
Bond Cost Expense	-	-	9,841	9,841
Total Expenditures	126,231,548	42,771,439	25,735,481	194,738,468
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,839,195	2,947,072	(12,346,344)	(1,560,077)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	596,129	-	-	596,129
Transfers in (Note 9A)	13,596,318	-	12,101,338	25,697,656
Transfers (out) (Note 9A)	(12,370,339)	(9,690,106)	(1,250,311)	(23,310,756)
Total Other Financing Sources (Uses)	1,822,108	(9,690,106)	10,851,027	2,983,029
NET CHANGE IN FUND BALANCES	9,661,303	(6,743,034)	(1,495,317)	1,422,952
Fund balances at beginning of period	67,457,957	175,746,427	64,993,487	308,197,871
FUND BALANCES AT END OF PERIOD	\$ 77,119,260	\$ 169,003,393	\$ 63,498,170	\$ 309,620,823

See accompanying notes to financial statements

**CITY OF SANTA CLARA
RECONCILIATION OF THE
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
WITH THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

The schedule below reconciles the Net Changes In Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes In Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	1,422,952
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSET TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance		24,626,338
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Depreciation expense is deducted from the fund balance

(Depreciation expense is net of internal service fund depreciation of \$1,492,430 which has already been allocated to serviced funds.)

(19,064,085)

Retirements and transfers of capital assets (net of internal service fund retirements of \$12,571)

(23,200)

Contributions of infrastructure and improvements by developers are capitalized in the Statement of Activities, but are not recorded in the Fund Statements because no cash changed hands.

910,758

LONG TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.

Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance		8,985,000
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ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Provision for reserve of conditional grants		(399,943)
Non-current portion of compensated absences		105,262
Interest payable		77,309
Deferred revenue		3,902,260

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds, arising out of their transactions with Governmental Funds, is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds, net		(2,771,469)
Change in Net Assets of Internal Service Funds reported with Business-Type Activities		<u>(570,555)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>17,200,627</u>
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See accompanying notes to basic financial statements.

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CITY OF SANTA CLARA MAJOR PROPRIETARY FUNDS
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Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through use charges.

The City has identified the funds below as major proprietary funds in fiscal year 2006-07.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

ELECTRIC UTILITY FUND

This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

WATER UTILITY FUND

This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

SEWER UTILITY FUND

The Sewer Utility fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

WATER RECYCLING UTILITY FUND

This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

SOLID WASTE FUND

This fund accounts for the administration of the City's garbage and rubbish collection service.

CEMETERY FUND

This fund accounts for the activities of the Mission City Memorial Park.

SPORTS AND OPEN SPACE AUTHORITY FUND (SOSA)

SOSA was created by the City Council in 1974 for the acquisition and development of open space within the City and the development of local sports activities.

SANTA CLARA GOLF AND TENNIS CLUB FUND (SCG&TC)

The SCG&TC was established in 1984 to account for the operations of the City's Public Golf Course.

SANTA CLARA CONVENTION CENTER FUND

The Santa Clara Convention Center was established in 1984 to account for the operations of the City's Convention Center.

CITY OF SANTA CLARA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2007

	Business-type Activities-Enterprise Funds				
	UTILITY FUNDS				
	Electric Utility	Water Utility	Sewer Utility	Water Recycling Utility	Solid Waste
ASSETS					
Current assets:					
Cash and investments (Note 8):					
Pooled cash and investments	\$ 381,316,951	\$ 9,705,250	\$ 19,047,591	\$ 2,679,342	\$ 8,029
Investments with fiscal agent	13,261,909	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Accounts	50,001,594	2,238,531	1,214,004	36,128	1,448,767
Interest	4,448,178	120,773	218,679	31,490	-
Due from other funds (Note 9B)	1,551,471	56,132	283,708	-	911,904
Materials, supplies and prepaids	10,543,312	648,015	-	-	-
Total current assets	481,123,415	12,768,701	20,763,982	2,746,960	2,368,700
Noncurrent assets:					
Cash designated for construction (Note 8)	-	303,090	1,507,553	-	510,000
Investment with fiscal agent (Note 8)	14,899,771	-	-	-	-
Deposits (Note 8)	4,292,082	-	-	-	-
Capital assets (Note 10):					
Land and improvements	9,677,134	661,268	725,328	-	-
Buildings and improvements	677,768,143	57,963,479	24,461,363	-	127,362
Equipment	7,547,869	3,425,304	1,429,352	-	440,599
Construction in progress	1,427,991	1,138,948	66,759	-	31,181
	696,421,137	63,188,999	26,682,802	-	599,142
Accumulated depreciation	235,223,304	33,427,029	16,322,195	-	432,038
	461,197,833	29,761,970	10,360,607	-	167,104
Investment in joint ventures (Note 13)	19,781,167	-	95,778,458	-	-
Other assets	3,259,177	329,192	216,232	-	224,161
Total noncurrent assets	503,430,030	30,394,252	107,862,850	-	901,265
Total assets	984,553,445	43,162,953	128,626,832	2,746,960	3,269,965
LIABILITIES					
Current liabilities:					
Accrued liabilities	46,361,958	1,390,253	78,767	1,313,167	1,219,543
Interest payable	4,517,792	-	-	-	-
Accrued compensated absences (Note 2K)	271,726	83,328	44,047	-	6,619
Due to other funds (Note 9B)	-	153,291	-	-	-
Deferred revenue	-	-	-	-	-
Current portion of landfill closure liability (Note 12)	-	-	-	-	485,000
Current portion of long-term debt (Note 11)	12,370,000	-	-	70,021	-
Total current liabilities	63,521,476	1,626,872	122,814	1,383,188	1,711,162
Noncurrent liabilities:					
Advance from other funds (Note 9C)	-	-	-	-	-
Landfill closure liability (Note 12)	-	-	-	-	4,397,471
Long-term Comp Absences (Note 2K)	1,861,493	609,000	263,301	-	35,082
Long-term obligations (Note 11)	240,821,647	-	-	35,329	-
Total noncurrent liabilities	242,683,140	609,000	263,301	35,329	4,432,553
Total liabilities	306,204,616	2,235,872	386,115	1,418,517	6,143,715
NET ASSETS					
Invested in capital assets, net of related debt	236,167,866	29,761,970	10,360,607	-	167,104
Restricted for contractual obligations	-	808,989	-	309,482	156
Unrestricted	422,180,963	10,356,122	117,880,110	1,018,961	(3,041,010)
Total net assets	\$ 658,348,829	\$ 40,927,081	\$ 128,240,717	\$ 1,328,443	\$ (2,873,750)

Amounts reported for *business-type activities* in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities in some cases.

Net assets of business-type activities

See accompanying notes to financial statements

Cemetery	Sports and Open Space Authority	Santa Clara Golf and Tennis Club	Santa Clara Convention Center	TOTAL	Internal Service Funds (Note 2A)
\$ 71,205	\$ 166,334	\$ 181,557	\$ 1,964,878	\$ 415,141,137	\$ 13,517,484
-	-	-	-	13,261,809	19,976,851
-	-	-	352,035	55,291,059	285,967
-	-	-	-	4,819,120	156,746
148,267	-	-	-	2,851,482	342,104
-	-	58,884	-	11,250,221	321,010
219,472	166,334	240,451	2,316,913	502,714,928	34,580,162
-	-	39,047	-	2,359,690	-
-	-	-	-	14,899,771	-
-	-	-	-	4,292,082	-
1,136,945	3,883,048	-	-	16,083,721	-
1,147,621	-	23,681,875	47,243,382	832,393,225	-
240,228	-	612,717	1,317,063	15,013,132	21,062,727
-	-	-	2,008,965	4,673,844	-
2,524,794	3,883,046	24,294,592	50,569,410	868,163,922	21,062,727
1,014,782	-	14,135,158	29,469,662	330,024,168	16,069,698
1,510,012	3,883,046	10,159,434	21,099,748	538,139,754	4,993,029
-	-	-	-	115,558,625	-
-	-	-	-	4,028,762	-
1,510,012	3,883,046	10,198,481	21,099,748	679,279,684	-
1,729,484	4,049,380	10,438,932	23,416,661	1,181,994,612	39,573,191
-	10,206	433,833	279,015	51,086,742	18,666,181
-	-	-	-	4,517,792	-
6,858	-	-	-	412,578	16,902
-	-	-	1,561,786	1,715,077	3,152,625
-	-	-	476,112	476,112	-
-	-	-	-	485,000	-
-	-	-	-	12,440,021	-
6,858	10,206	433,833	2,316,913	71,133,322	21,835,708
1,935,910	-	3,774,134	-	5,710,044	-
-	-	-	-	4,397,471	-
48,826	-	-	-	2,817,702	116,664
-	-	-	-	240,856,976	20,000,000
1,984,736	-	3,774,134	-	253,782,193	20,116,664
1,991,594	10,206	4,207,967	2,316,913	324,915,515	41,952,372
1,510,012	3,883,046	10,159,434	21,099,748	313,109,787	4,993,029
-	-	-	-	1,118,627	390,287
(1,772,122)	156,128	(3,928,469)	-	542,850,683	(7,762,497)
\$ (262,110)	\$ 4,039,174	\$ 6,230,965	\$ 21,099,748	857,079,097	\$ (2,378,181)
				(1,072,405)	
				\$ 856,006,692	

**CITY OF SANTA CLARA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	Business-type Activities-Enterprise Funds				
	UTILITY FUNDS				
	Electric Utility	Water Utility	Sewer Utility	Water Recycling Utility	Solid Waste
Operating revenues:					
Charges for services	\$229,318,572	\$21,241,024	\$ 12,871,169	\$ 1,217,795	\$15,236,523
Rents and royalties	-	-	-	-	-
Insurance refunds and other	-	-	-	-	-
Other	-	-	-	-	386,990
Total operating revenues	229,318,572	21,241,024	12,871,169	1,217,795	15,623,513
Operating expenses:					
Salaries and benefits	17,328,731	4,034,513	1,606,683	88,322	803,760
Materials, services and supplies	217,941,492	16,339,790	10,086,569	584,097	14,666,530
General and administrative	-	-	-	-	-
Amortization	1,158,705	80,622	52,856	-	55,052
Depreciation	16,136,531	1,005,097	458,589	-	18,567
Total operating expenses	252,565,459	21,460,022	12,204,697	672,419	15,543,909
Operating income (loss)	(23,246,887)	(218,998)	666,472	545,376	79,604
Nonoperating revenues (expenses):					
Interest revenue	17,911,586	476,600	878,966	116,694	-
Net (decrease) in the fair value of investments	2,933,179	75,770	111,591	-	-
Rents and royalties	2,080,871	83,455	-	-	-
Joint project contribution	-	-	-	285,953	-
Other revenue	10,007,533	459,826	705,719	618	-
Interest expense	(12,086,093)	-	-	(6,929)	-
Other expense	(4,369,314)	-	-	(1,642,354)	-
Equity in income (losses) of joint ventures	3,913,467	-	9,601,400	-	-
Gain (loss) on retirement of assets	8,092,454	-	-	-	-
Wholesale power sales	204,723,026	-	-	-	-
Wholesale power purchases	(197,076,082)	-	-	-	-
Total nonoperating revenues	36,130,627	1,095,651	11,297,676	(1,246,018)	-
Income (loss) before contributions and transfers	12,883,740	876,653	11,964,148	(700,642)	79,604
Contributions	-	-	-	-	-
Transfers in (Note 9A)	-	525,000	-	-	504,160
Transfers (out) (Note 9A)	(903,895)	(151,785)	(43,080)	(525,000)	(59,160)
Change in net assets	11,979,845	1,249,868	11,921,068	(1,225,642)	524,604
Total net assets - beginning	646,368,984	39,677,213	116,319,649	2,554,085	(3,398,354)
Total net assets - ending	\$658,348,829	\$40,927,081	\$ 128,240,717	\$ 1,328,443	\$ (2,873,750)

Amounts reported for *business-type activities* in the Statement of Activities are different because the portion of the net (loss) of certain internal service funds is reported with the business-type activities which those funds service.

Change in net assets of business-type activities

See accompanying notes to financial statements

<u>Cemetery</u>	<u>Sports and Open Space Authority</u>	<u>Santa Clara Golf and Tennis Club</u>	<u>Santa Clara Convention Center</u>	<u>TOTAL</u>	<u>Governmental Activities- Internal Service Funds</u>
\$ 564,440	\$ -	\$ 3,079,698	\$ 4,085,547	\$ 287,614,768	\$ 8,508,485
-	1,317,265	-	-	1,317,265	-
-	-	-	-	-	358,623
-	-	120,070	-	507,060	-
<u>564,440</u>	<u>1,317,265</u>	<u>3,199,768</u>	<u>4,085,547</u>	<u>289,439,093</u>	<u>8,867,108</u>
465,047	4,890	849,961	3,391,631	28,573,538	1,918,077
219,681	15,198	926,918	1,017,628	261,797,903	1,784,269
-	-	-	-	-	8,472,878
-	-	-	-	1,347,235	-
<u>36,711</u>	<u>-</u>	<u>813,859</u>	<u>1,595,167</u>	<u>20,064,521</u>	<u>1,492,430</u>
<u>721,439</u>	<u>20,088</u>	<u>2,590,738</u>	<u>6,004,426</u>	<u>311,783,197</u>	<u>13,667,654</u>
<u>(156,999)</u>	<u>1,297,177</u>	<u>609,030</u>	<u>(1,918,879)</u>	<u>(22,344,104)</u>	<u>(4,800,546)</u>
-	14,678	-	70,162	19,468,686	774,341
-	-	-	-	3,120,540	-
-	-	-	-	2,164,326	-
-	-	-	-	285,953	-
-	-	-	-	11,173,696	100,813
-	-	-	-	(12,093,022)	(604,725)
-	-	-	-	(6,011,668)	-
-	-	-	-	13,514,867	-
-	-	-	-	8,092,454	(21,557)
-	-	-	-	204,723,026	-
-	-	-	-	(197,076,082)	-
<u>-</u>	<u>14,678</u>	<u>-</u>	<u>70,162</u>	<u>47,362,776</u>	<u>248,872</u>
(156,999)	1,311,855	609,030	(1,848,717)	25,018,672	(4,551,674)
-	-	-	2,568,489	2,568,489	-
40,637	1,416,053	-	255,041	2,740,891	707,800
<u>(3,300)</u>	<u>(2,733,318)</u>	<u>(1,416,053)</u>	<u>-</u>	<u>(5,835,591)</u>	<u>-</u>
(119,662)	(5,410)	(807,023)	974,813	24,492,461	(3,843,874)
<u>(142,448)</u>	<u>4,044,584</u>	<u>7,037,988</u>	<u>20,124,935</u>	<u>-</u>	<u>1,464,693</u>
<u>\$ (262,110)</u>	<u>\$ 4,039,174</u>	<u>\$ 6,230,965</u>	<u>\$21,099,748</u>	<u>-</u>	<u>\$ (2,379,181)</u>
				<u>(501,850)</u>	
				<u>\$ 23,990,611</u>	

CITY OF SANTA CLARA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

	Business-type Activities-Enterprise Funds				
	UTILITY FUNDS				
	Electric Utility	Water Utility	Sewer Utility	Water Recycling Utility	Solid Waste
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 227,177,718	\$ 20,888,447	\$ 12,870,339	\$ 1,198,385	\$ 15,002,026
Payments to suppliers	(251,989,947)	(16,422,111)	(10,078,558)	(540,097)	(14,730,440)
Payments to employees	(17,327,917)	(4,039,816)	(1,600,956)	(88,322)	(802,247)
Internal activity - payments to other funds	-	-	-	-	-
Claims paid	-	-	-	-	-
Other receipts (payments)	6,728,404	459,826	705,719	618	386,990
Net cash provided by operating activities	(35,391,742)	866,346	1,696,543	570,564	(143,671)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Wholesale resource sales	204,723,026	-	-	-	-
Wholesale resource purchases	(197,076,082)	-	-	-	-
Charges for Joint project contribution	-	-	(685,850)	360,953	-
Expenses for joint project	-	-	-	(1,583,453)	-
Increase (decrease) in due from other funds	33,653	29,363	261,705	-	(43,352)
(Increase) decrease in due to other funds	-	153,291	-	-	-
Advances from other funds	-	-	-	-	-
Transfers in	-	525,000	-	-	504,160
Transfers (out)	(903,895)	(151,785)	(43,080)	(525,000)	(59,160)
Cash Flows from Noncapital Financing Activities	6,776,702	555,669	(667,225)	(1,727,500)	401,648
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets, net	903,889	(2,455,834)	(560,446)	-	-
Principal payments on capital debt	(11,820,000)	-	-	(87,318)	(542,596)
Interest paid on capital debt	(11,503,327)	-	-	(6,929)	-
Cash Flows from Capital and Related Financing Activities	(22,419,438)	(2,455,834)	(560,446)	(74,247)	(542,596)
CASH FLOWS FROM INVESTING ACTIVITIES					
Rents and royalties received	2,093,195	83,455	-	-	-
Net increase in the fair value of investments	2,933,179	75,770	111,591	-	-
Interest and dividends	16,525,977	463,532	839,303	120,862	-
Payments made by fiscal agent	23,347,666	-	-	-	-
Deposits made with fiscal agent	(23,371,782)	-	-	-	-
Cash Flows from Investing Activities	21,528,225	622,757	950,894	120,862	-
Net increase (decrease) in cash and cash equivalents	(29,506,253)	(410,862)	1,419,766	(1,110,321)	(284,618)
Cash and cash equivalents at beginning of period	410,823,204	10,419,202	19,135,378	3,789,663	802,648
Cash and cash equivalents at end of period	\$ 381,316,951	\$ 10,008,340	\$ 20,555,144	\$ 2,679,342	\$ 518,029
Cash and cash equivalents:					
Pooled cash and investments	\$ 381,316,951	\$ 9,705,250	\$ 19,047,591	\$ 2,679,342	\$ 8,029
Cash designated for construction	-	303,090	1,507,553	-	510,000
Total cash and cash equivalents	\$ 381,316,951	\$ 10,008,340	\$ 20,555,144	\$ 2,679,342	\$ 518,029
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (23,248,887)	\$ (218,998)	\$ 666,472	\$ 545,376	\$ 79,604
Adjustments to reconcile operating income to net cash provided by operating activities:					
Amortization	1,158,705	80,622	52,856	-	55,052
Depreciation	16,136,531	1,005,097	458,589	-	18,587
Change in assets and liabilities:					
Receivables, net	(4,988,186)	(369,088)	(200,830)	(19,430)	(234,497)
Inventory	(6,824,429)	(38,766)	-	-	-
Accrued liabilities	(23,266,509)	(47,043)	8,009	44,000	(63,911)
Compensated absences	814	(5,304)	5,728	-	1,514
Deferred revenue	-	-	-	-	-
Other receipts	10,007,533	459,826	705,719	618	-
Other expenses	(4,369,314)	-	-	-	-
Net cash provided by operating activities	\$ (35,391,742)	\$ 866,346	\$ 1,696,543	\$ 570,564	\$ (143,671)
NONCASH TRANSACTIONS:					
Joint Ventures					
Nonoperating income	\$ 3,913,467	\$ -	\$ 9,601,400	\$ -	\$ -

See accompanying notes to financial statements

Cemetery	Sports and Open Space Authority	Santa Clara Golf and Tennis Club	Santa Clara Convention Center	Totals	Governmental Activities- Internal Service Funds
\$ 564,440 (223,213) (465,295) - -	\$ 1,317,265 (13,529) (4,890) - -	\$ 3,079,698 (993,025) (849,961) - 132,471	\$ 4,107,029 (992,473) (3,391,631) - -	\$ 285,985,327 (295,963,394) (28,571,035) - 8,414,028	\$ 8,675,808 (1,870,046) (1,918,155) (121,793) (3,692,365) 100,813
(124,068)	1,298,846	1,369,183	(277,075)	(30,135,074)	1,174,262
-	-	-	-	204,723,026	-
-	-	-	-	(197,076,082)	-
-	-	-	-	(524,897)	-
-	-	-	-	(1,583,453)	-
(12,844)	-	-	-	268,525	(165,820)
-	-	-	462,328	615,819	(253,838)
175,180	-	-	-	175,190	-
40,837	1,418,053	-	255,041	2,740,891	707,800
(3,300)	(2,733,318)	(1,416,053)	-	(5,835,591)	-
199,683	(1,317,265)	(1,416,053)	717,369	3,523,228	288,342
(34,102)	-	(66,197)	(1,491)	(2,214,181)	(2,106,206)
-	-	-	-	(12,429,914)	-
-	-	-	-	(11,510,256)	(604,725)
(34,102)	-	(66,197)	(1,491)	(26,154,351)	(2,710,931)
-	-	-	-	2,176,850	-
-	-	-	-	3,120,540	-
-	14,678	-	70,162	18,034,514	627,989
-	-	-	-	23,347,666	-
-	-	-	-	(23,371,792)	(27,990)
-	14,678	-	70,162	23,307,578	599,999
41,513	(3,741)	(113,067)	508,965	(29,458,619)	(648,328)
29,692	170,075	333,671	1,455,913	446,959,446	14,165,812
\$ 71,205	\$ 166,334	\$ 220,604	\$ 1,964,878	\$ 417,500,827	\$ 13,517,484
\$ 71,205	\$ 166,334	\$ 181,557	\$ 1,964,878	\$ 415,141,137	\$ 13,517,484
-	-	39,047	-	2,359,690	-
\$ 71,205	\$ 166,334	\$ 220,604	\$ 1,964,878	\$ 417,500,827	\$ 13,517,484
\$ (156,999)	\$ 1,297,177	\$ 609,030	\$ (1,918,879)	\$ (22,344,104)	\$ (4,800,546)
-	-	-	-	1,347,235	-
36,711	-	813,859	1,595,167	20,064,521	1,492,430
-	-	-	(12,271)	(5,824,302)	167,324
-	-	12,401	-	(6,850,794)	6,546
(3,533)	1,669	(66,107)	25,155	(23,368,270)	4,207,774
(247)	-	-	-	2,505	(79)
-	-	-	33,753	33,753	100,813
-	-	-	-	11,173,698	-
-	-	-	-	(4,369,314)	-
\$ (124,068)	\$ 1,298,846	\$ 1,369,183	\$ (277,075)	\$ (30,135,074)	\$ 1,174,262
\$ -	\$ -	\$ -	\$ -	\$ 13,514,867	\$ -

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CITY OF SANTA CLARA FIDUCIARY FUNDS
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Fiduciary Funds – Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

**CITY OF SANTA CLARA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007**

	<u>Agency Funds</u>
ASSETS	
Pooled cash and investments (Note 8)	\$16,937,146
Investments with fiscal agents (Note 8)	<u>210,582</u>
Total Assets	<u><u>\$17,147,728</u></u>
 LIABILITIES	
Due to bondholders	\$ 3,348,835
Accrued liabilities	8,897,600
Refundable deposits	<u>4,901,293</u>
Total Liabilities	<u><u>\$17,147,728</u></u>

See accompanying notes to financial statements

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CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 1 – DEFINITION OF THE REPORTING ENTITY

The City of Santa Clara (City), also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. The City Charter establishes the Council/Manager form of government. The City's citizens elect a City Council of seven citizens, six councilpersons and a Mayor elected at-large, who serve a term of four years each, and who, in turn, appoint a City Manager.

The City is located in the County of Santa Clara, California, approximately 45 miles southeast of San Francisco and three miles north of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.2 square miles. The City's population of 114,238 accounts for 6.32% of the total Santa Clara County population of 1.81 million.

The City provides a full range of municipal services, including police and fire, library, recreation, community services, public works, parks, sanitation, planning and community development, public improvements, electric, water and sewer services.

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units which are described below are all blended.

The Redevelopment Agency of the City of Santa Clara

The Redevelopment Agency of the City of Santa Clara (Agency) was established by the City Council in 1957 with the authority and responsibility for developing and upgrading blighted areas of the City. The members of the City Council are also members of the Agency's Board of Directors and, as such, are authorized to transact business and exercise power to plan, engineer, and implement projects of the Redevelopment Plan. The City performs all accounting and administrative functions of the Agency. The financial activities of the Agency have been reported in the accompanying basic financial statements in the Redevelopment Agency Fund. Separate financial statements have been issued for the Agency and are available at Santa Clara City Hall in the City Clerk's Office.

City of Santa Clara Sports and Open Space Authority

The City of Santa Clara Sports and Open Space Authority (SOSA) was created by the City Council in 1974 for the acquisition and development of open space within the City. The members of the City Council are also members of SOSA's Board of Directors and, as such, are authorized to transact business and exercise power to purchase, lease or otherwise obtain and dispose of real and personal property, to acquire, construct, maintain, repair, manage and operate real and personal property, including leasing to private operators for commercial purposes, surplus space which is not economical to use for open space planning. The City performs all accounting and administrative functions. The operations of SOSA have been included in the accompanying basic financial statements in the Enterprise Fund.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 1 – DEFINITION OF THE REPORTING ENTITY (Continued)

City of Santa Clara Public Facilities Financing Corporation

The City of Santa Clara Public Facilities Financing Corporation (PFFC) was formed in 1997 for the purpose of issuing Certificates of Participation (COPs) to provide financing for the construction of the Police Administration Building. Members of the City Council are also members of the PFFC Board. Debt service on the COPs is secured by lease payments made by the City's General Fund to the PFFC for the use of the Police Administration Building site. In accordance with the lease agreement, the PFFC assigns lease payments received from the City to the trustee for payment to the certificate holders. The operations of PFFC have been included in the accompanying basic financial statements in the Debt Service Fund.

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Basic Financial Statements

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

The significant accounting policies are described below:

Government-wide Financial Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Interfund Services provided and used are allocated to governmental and business-type activities, as appropriate. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for the City's enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses

B. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount to all governmental and enterprise fund for the same item. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Redevelopment Agency Fund - This fund accounts for the construction or acquisition of public improvements of the Agency; housing set aside funds received from Agency tax increment for the purpose of developing low to moderate income housing; and for monies for the payment of Agency long-term obligations which are financed by tax increment and lease revenues.

The City reported the following enterprise funds as major funds in the accompanying financial statements:

Electric Utility Fund - This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

Water Utility Fund - This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

Sewer Utility Fund - This fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

Water Recycling Utility Fund - This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Solid Waste Fund - This fund accounts for the administration of the city's garbage and rubbish collection service.

Cemetery Fund - This fund accounts for the activities of the Mission City Memorial Park.

Sports and Open Space Authority Fund - SOSA was created by the City Council in 1974 for the acquisition and development of open space within the City.

Santa Clara Golf and Tennis Club Fund - The SCG&TC was established in 1984 to account for the operations of the City's Public Golf Course.

Santa Clara Convention Center Fund - The Santa Clara Convention Center was established in 1984 to account for the operations of the City's Convention Center.

The City also reports the following fund types:

Internal Service funds - These funds account for maintenance of vehicles and communication and computer equipment; general liability and workers' compensation claims, all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary funds - These funds account for assets held by the City in trust for community or private organizations, or as an agent for its employees or for assessment districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

C. Basis of Accounting

The government-wide financial statements and the fund category, proprietary, and fiduciary fund category financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place. Agency Funds have no measurement focus.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

The City allocates certain indirect expenses incurred by the General Government activity to those activities that benefit.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

The GASB issued Statements No. 45, "*Accounting and Financial Reporting by Employers for postemployment Benefits Other Than Pensions*", Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*", and Statement No. 50, "*Pension Disclosures*", which become effective July 1, 2007. The City is analyzing the effects of these pronouncements and planning to adopt them by the effective date. The City does not anticipate a material impact with the adoption of these standards.

D. Pooled Cash and Investments

While maintaining safety and liquidity, the City maximizes investment return by pooling its available cash for investment purposes. Unless there are specific legal or contractual requirements to do otherwise, interest earnings are apportioned among funds according to average monthly cash and investment balances. It is generally the City's intention to hold investments until maturity. City investments are stated at fair value (see Note 8).

Cash and cash equivalents for purposes of the statement of cash flows include pooled cash and investments and cash designated for construction. Transactions with City-wide cash management pools are similar to those with external investment pools; therefore, since pooled cash and investments have the same characteristics as demand deposits in that the City's individual funds and component units may withdraw additional monies at any time without prior notice or penalty, pooled cash and investments are considered essentially demand deposit accounts.

Cash and investments with fiscal agent, a bond reserve investment pool, and amounts classified as deposits are not considered cash and cash equivalents.

E. Interfund Transactions and Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The related receivables and payables are classified as "due from other funds," and "due to other funds" in the fund financial statements. Long-term interfund receivables and payables are recorded as advances.

Transactions constituting reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities, and are reported only in the government-wide financial statements.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

F. Inventory of Materials and Supplies

Inventory of materials and supplies is accounted for using the consumption method and is stated at average cost. Inventory consists of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure or expense in the appropriate fund at the time individual inventory items are withdrawn for use. The General Fund inventory amount is equally offset by a fund balance reserve, which indicates that it does not constitute available expendable resources.

G. Restricted Assets

Restricted assets are monies or other resources, the use of which is restricted by legal or contractual requirements.

H. Land Held for Redevelopment

The Redevelopment Agency has purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for as investments on the balance sheet at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

Individual parcels which have experienced a market value decline are written down to estimated current market value. No appreciation is recorded if the current market value of an individual parcel exceeds cost.

I. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize equipment with costs exceeding \$5,000 and with useful lives exceeding two years and buildings, improvements and infrastructure with costs exceeding \$20,000.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Public domain ("infrastructure") assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and traffic signals, have been capitalized and reported in the government-wide financial statements. Depreciation has been provided on all capital assets, including infrastructure, on a straight-line basis over the estimated useful lives of the assets.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

	Useful Lives (Years)	Capitalization Threshold
Buildings	20-55	\$20,000
Improvements	20-50	\$20,000
Equipment	3-25	\$ 5,000
Infrastructure	20-50	\$20,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated (if applicable) over the remaining useful lives of the related capital assets.

Capital assets and the related obligations acquired under lease/purchase agreements are capitalized and accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*.

J. Joint Ventures

The City's Electric and Sewer Utility funds participate in several joint ventures. In accordance with GASB Statement No. 14 investments in these joint ventures are accounted for on the equity method (see Note 13). If the City's equity in net losses of joint ventures exceeds its investment, use of the equity method is suspended except to the extent that the City is obligated to provide further financial support or has guaranteed obligations of the joint ventures.

The City advances funds to certain of its joint ventures in the form of refundable advances, project advances and operating and maintenance advances. Refundable advances accrue interest at rates stated in the related agreements. Operating, maintenance and project advances are charged to operations when incurred.

Capitalized project costs are charged to operations in the event that a project is determined to be not economically feasible.

K. Compensated Absences

Amounts of vested or accumulated vacation leave and benefits that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. No expenditure is reported for these amounts. The portion that is expected to pay out to the known retirees in the following year is accrued as an expense and current liability of General Fund. Vested or accumulated vacation leave and benefits of proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees. Vacation time is earned based on length of service in amounts ranging between 10 and 21 days per year. City employees are allowed to carry over unused vacation earned. The maximum amount of time that can be carried over varies, depending on the employee's rate of accrual, with an upper limit of 400 hours. Employees are paid for unused accruals upon termination of employment.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, a liability for sick leave and benefits is accrued using the vesting method. The vesting method provides that a governmental entity estimates its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. Amounts of sick leave payments that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. No expenditure is reported for these amounts in the financial statements. The portion that is expected to be paid out to the known retirees in the following year is accrued as an expense and current liability of General Fund. Estimated sick leave payments of proprietary funds are recorded as an expense and liability of those funds.

The accrual for compensated absences comprised the following at June 30, 2007. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$ 11,367,438	\$ 3,227,776	\$ 14,595,214
Additions	1,830,574	267,724	2,098,298
Payments	1,865,269	242,477	2,289,746
Ending Balance	<u>\$ 11,332,743</u>	<u>\$ 3,071,023</u>	<u>\$ 14,403,766</u>
Current Portions	<u>\$ 1,522,502</u>	<u>\$ 412,578</u>	<u>\$ 1,935,080</u>

L. Risk Management

The City is self-insured up to \$20 million to provide general liability protection and has \$20 million of Insurance Funding Bonds outstanding which are an effective alternative to liability insurance protection, adaptable to the City's insurance needs (see Note 11C). In addition, the City is also self-insured up to \$500 thousand per claim for Workers' Compensation Claims. These self-insurance programs are administered by outside agencies.

The City also maintains excess workers' compensation insurance for workers' compensation claims over \$500 thousand per claim with coverage up to \$100 million.

Additionally, the City maintains property damage coverage through the Public Entity Property Insurance Program (PEPIP), which has a plan limit of \$1 billion. The City maintains boiler and machinery property coverage of \$100 million per occurrence in excess of self-insured amounts varying from \$2,500 to \$500,000 per occurrence. There were no reductions in the City's insurance coverage from last year. No claims settlement amount exceeded the City's insurance coverage in the past three fiscal years.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

M. Long-Term Obligations

Long-term obligations are reported in the Governmental Activities portion of the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

N. Accounting for Encumbrances

The City utilizes an encumbrance system of accounting wherein encumbrances outstanding at year end, for which the goods or services have not been received, are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. The City Charter requires recording encumbrances as a charge against appropriations in the accounting period in which a purchase order is issued, rather than in the accounting period when goods or services are received. Under the modified accrual basis of accounting, in accordance with GAAP, expenditures are recorded when the goods or services are received. Adjustments to convert expenditures from the modified accrual basis to the budgetary basis are reflected in the schedule of revenues, expenditures, and changes in fund balances - budget and actual (non-GAAP legal basis) (see Note 3 and Required Supplementary Information).

O. Contributed Assets

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

P. Net Assets and Fund Equity

Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and

unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Reserved fund equity represents those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent the City's current plans for future use of financial resources.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Q. Bond Discounts/Issuance Costs

In governmental funds, bond discounts and issuance costs and governmental activities in the entity wide financial statement are recognized in the current period. Bond discounts and issuance costs for proprietary funds are deferred and amortized over the term of the bonds using a method which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

R. Property Taxes

The State of California Constitution Article XIII A provides that the combined maximum tax rate on any given property may not exceed 1% of its assessed value except for voter approved incremental property taxes adopted prior to the passage of Article XIII A and any additional amount for general obligation debt approved by voters subsequent to the passage of Article XIII A.

Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless there is a new construction on the property or the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts and other districts.

Santa Clara County (County) assesses properties and bills and collects property taxes on behalf of the City as follows:

	Secured	Unsecured
Valuation dates	January 1	January 1
Lien/levy dates	July 1	January 1
Due dates	50% on November 1, 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November), April 10 (for February)	August 31

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The term "unsecured" refers to taxes on property not secured by liens on real property and generally includes business use personal property.

The City participates in the Teeter Plan offered by the County whereby cities receive 100% of secured property tax levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

Property taxes levied are recorded as revenue when received from the County. Property taxes expected to be collected within 60 days of the end of the fiscal year are recorded as revenue.

The City's net assessed valuation for the year ended June 30, 2007, was \$20.4 billion, an increase of 8.89% compared to the previous year. The average tax rate was 1.15% per \$100 of assessed valuation.

S. Contribution In-Lieu of Taxes

Contribution in lieu of taxes is a general revenue of the governmental funds. It is levied on receipts of the City-owned and operated utilities in accordance with the City Charter. Non-City owned and operated utilities pay a franchise fee, which is also a governmental activities general revenue source.

T. Special Assessment Districts with City Commitment

Recognition of revenue related to noncurrent receivables of special assessment district funds is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes the City will ultimately receive value equal to the delinquent receivables. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

U. Income Taxes

The City falls under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

V. Lease Agreements

Any operating leases with scheduled rent increases are accounted for in accordance with SFAS Statement No. 13, *Accounting for Leases*.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

W. Arbitrage Rebate Liability

Arbitrage rebate liabilities are included in accrued liabilities.

X. Revenue Recognition

Electric, Water, Sewer and Solid Waste Fund revenues are recognized based on cycle billings periodically rendered to customers. Revenues for services provided, but not billed at the end of a fiscal year, are recognized and accrued based on estimated consumption.

Governmental Activities revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Y. Non-exchange Transactions

The City gives or receives value without directly receiving or giving equal value in exchange, including grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Z. Financial Instruments

Financial instruments included in the City's basic financial statements, excluding cash and investments, consisted of accounts receivable, accrued liabilities, and bonds payable at June 30, 2007. The carrying amounts are a reasonable estimate of fair value.

AA. Conditional Grants

The City has several programs under which it extends loans to qualifying individuals or groups for the purpose of improving the City's housing stock and/or its supply of low-and moderate-income housing. Certain of these loans provide for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The City accounts for these loans as conditional grants in the City-wide financial statements, and provides a reserve against their eventual forgiveness using the straight-line method over the life of the respective loan.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

AB. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

The budget of the City is a detailed operating plan that identifies estimated costs and activities in relation to estimated revenues. The budget includes: (1) the projects, services and activities to be provided during the fiscal year, (2) the estimated revenue available to finance the operating plan, and (3) the estimated spending requirements of the operating plan.

The budget process is the mechanism through which policy decisions are made, implemented and controlled. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation. The City is required to adopt a budget on or before June 30 for the ensuing fiscal year that begins July 1. Activities of the General Fund and the Maintenance Special Revenue Fund are included in the annual appropriated operating budget. The procedures followed to establish the budgetary data reflected in the accompanying required supplementary information to the basic financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. This includes a Five Year Financial Plan to aid in the planning and funding of operations and capital projects over the next five years.
2. Public hearings are conducted to obtain public comments.
3. The operating and capital budgets are legally enacted through the passage of a minute order and 5-Year Plan is approved.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the applicable governmental funds. The City Council may amend the budget by motion during the fiscal year. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The operating budget is presented at the object category level within programs of departments. The City Manager may transfer appropriations within the same object category of a department within the same fund without approval from the City Council. All other transfers require City Council approval, including a transfer from one object category to another object category of the same department.

Budget information is presented on a non-GAAP budgetary basis. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations and

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

transfers during the year. Budget amounts in the schedules of revenues, expenditures and changes in fund balances-budget and actual, include supplemental appropriations approved by the City Council during the year. Total expenditures of the General and the Maintenance Special Revenue Funds may not legally exceed fund appropriations.

All annual appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered. For the actual GAAP basis financial statements, encumbered appropriations are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures, based on the encumbered appropriation authority carried over to the next fiscal year.

In addition to the annual Operating Budget, each year the City Council adopts a project length Capital Improvement Project budget.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 4 – THEME PARK, TECHMART, AND SANTA CLARA HOTEL GROUND LEASES

A. Theme Park Ground Lease

In June 1985, the Agency acquired the Great America Theme Park (Theme Park) and entered into a management agreement with Kings Entertainment Company (Kings) to manage the Theme Park operations. The Agency also entered into a Ground Lease and Assets Option Agreement (Option Agreement) with Kings Great America, Inc. (KGA), a wholly owned subsidiary of Kings.

In June 1989, the Agency sold the Theme Park operations to Kings pursuant to the Option Agreement, as amended. The sale was effective retroactive to January 1, 1989. In addition to the Theme Park buildings, rides and equipment, Kings purchased all other operating assets and assumed all operating liabilities of the Theme Park as of January 1, 1989. Concurrent with the sale of the Theme Park, the Agency as lessor, entered into a Ground Lease with First Refusal Purchase Rights (Ground Lease) with Kings pursuant to the Option Agreement, as amended, to lease the real property used in the operations of the Theme Park.

The Ground Lease expires on December 31, 2009, with an option to extend for 3 additional terms of 10 years each. In the event of a termination or expiration of the Ground Lease, the Agency has an option to repurchase the assets of the Theme Park.

In August 1992, the Agency assigned the Ground Lease to Paramount Parks, Inc. (Paramount) concurrent with Paramount's purchase of the operating assets of Kings. Paramount assumed the Ground Lease with no amendments or modifications. For the duration of the Ground Lease, and for 3 years after its expiration or termination, Paramount has the right to match any bona fide offer to buy or lease all or a portion of the leased property if the leased property is sold or leased for use as a theme park.

On May 22, 2006, Paramount's parent companies entered into a Purchase Agreement with Cedar Fair, L.P. (Cedar Fair), pursuant to which Cedar Fair agreed to purchase all of the outstanding capital stock of Paramount. Cedar Fair assumed the Ground Lease with no amendments or modifications.

The basic rent under the Ground Lease is \$5.3 million annually, payable in quarterly installments of \$1.325 million, plus additional rent equal to the sum of 5% of the annual gross revenues of the Theme Park in excess of \$56 million up to \$100 million plus 7.5% of the annual gross revenues in excess of \$100 million. For fiscal year ended June 30, 2007, Cedar Fair paid additional rent of \$162 thousand. The Agency transfers the lease revenues to the City for payments on its obligations under a Cooperation Agreement with the City related to the development of the Santa Clara Gateway Irvine Project (see Note 5).

The following schedule summarizes the approximate future minimum lease revenues to be received by the Agency from the Theme Park ground lease:

<u>Fiscal Year</u>	<u>Minimum Lease Receipts</u>
2008	\$5,300,000
2009	5,300,000
2010	2,650,000
	<u>\$13,250,000</u>

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 4 – THEME PARK, TECHMART, AND SANTA CLARA HOTEL GROUND LEASES
(Continued)

B. TECHMART Ground Lease

In May 1998, the Agency entered into a long-term ground lease of the TECHMART parcel with CarrAmerica. The lease has a fifty-five-year term with options for two additional ten-year terms. The Agency will receive \$1 million annual rent for each of the first ten years of the lease. Annual rent increases are scheduled as follows: 10% in the eleventh year and every five years thereafter during the initial term and 15% in the first and sixth year of each option term. Under the terms of the lease, CarrAmerica, assumed responsibility for all taxes and assessments levied against the TECHMART parcel and the Agency's interest in the lease is unsubordinated.

On July 13, 2006, CarrAmerica merged with Nantucket Acquisition, Inc., a wholly owned subsidiary of The Blackstone Group; the terms and conditions of the lease agreement remain in effect. The Agency is to pay all lease revenues received from the lease of the TECHMART parcel to the City's General Fund.

The following schedule summarizes the future lease payments to be received by the Agency from the TECHMART lease agreement:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$1,000,000
2009	1,100,000
2010	1,100,000
2011	1,100,000
2012	1,100,000
Thereafter	70,203,787
	<u>\$75,603,787</u>

C. Santa Clara Hotel Ground Lease

In July 1999, the Agency entered into a long-term ground lease with Santa Clara Hotel, LLC (Lessee) for the development of a certain portion of that piece of land – the North Parcel, and eventual operation of a high quality hotel and related facilities, amenities and improvements. The lease is for an initial term of fifty-five years. The Lessee has options to renew the lease for three additional periods of ten years. Under the terms of the lease, the Agency is entitled to receive a specified amount of minimum rent subject to adjustment at times specified in the lease. Beginning with the third lease year, the Agency is also entitled to receive additional rent at amounts, which specified percentage of the gross revenues of the hotel exceeds the total amount of minimum rent for the applicable lease year. For lease year ended July 31, 2007, Lessee paid to the Agency about \$569 thousand in minimum and percentage rents. Lessee has agreed to pay any impositions, including but not limited to taxes and assessments levied against the parcel.

Previously, the Agency paid all lease revenues received from this lease to the City's Electric Utility Fund. This arrangement terminated on July 11, 2006, when the City Council approved the sale of the City's Electric Utility interest in the ground lease revenues to the Agency. The Agency transfers the lease revenues to the City for payments on its obligations under a Cooperation agreement with the

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 4 – THEME PARK, TECHMART, AND SANTA CLARA HOTEL GROUND LEASES
(Continued)

City related to the development of the Santa Clara Gateway Irvine Project (see Note 5).

The following schedule summarizes the approximate minimum future revenues to be received by the Agency from this lease:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 400,000
2009	400,000
2010	400,000
2011	400,000
2012	400,000
Thereafter	16,833,333
	<u>\$18,833,333</u>

NOTE 5 – GROUND LEASE – THE IRVINE COMPANY

In April 2000, the Agency entered into a Cooperation Agreement (Agreement) with the City, whereby the Agency will acquire from the City a 42-acre site (site) bounded by Great America Parkway, Highway 237, Lafayette Street and the City's Golf Course. A Cooperation Agreement between the City and the Agency stipulated that the Agency agreed to pay consideration to the City for the site in an amount equal to all rent that the Agency will receive from the eventual lease of the site. The Cooperation Agreement was amended in June 2005 to expand the sources of funds from which the Agency makes payments on the site to the City. The Agency agreed to make payments from any source of funds when and as available and not reasonably needed for other redevelopment purposes. As of the end of the fiscal year, the Agency has identified the lease payments on the ground leases of the Theme Park and Santa Clara Hotel as additional sources for payment of the site. The amended Agreement also provided for payment of interest by the Agency at the highest rate allowable by law on the \$101 million agreed upon valuation of the site.

The following schedule summarizes the approximate future payments to the City by the Agency on the Cooperation Agreement:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$9,339,002
2009	9,339,002
2010	6,689,002
2011	4,039,002
2012	4,039,002
Thereafter	248,364,835
	<u>\$281,809,845</u>

In April 2000, the Agency also entered into a Disposition and Development Agreement with Ground Lease with The Irvine Company (Developer) for development of the site as an office/R&D complex. The site will be subdivided into several parcels to accommodate the phased development of the project. The Agency and Developer have identified certain improvements (conditions precedent) to be completed to prepare the site for development. The Agency and Developer have also identified

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 5 – GROUND LEASE – THE IRVINE COMPANY (Continued)

responsibilities for certain costs of the conditions precedent. As of June 30, 2007, the Agency has appropriated \$14.9 million and expended \$14.1 million (for its share of these costs) for the following projects: Golf Course Fairways Relocation and Perimeter Drainage, Wetland Mitigation – Yerba Buena Parcels, Yerba Buena Owl Mitigation, Landfill Cut-off Wall, and the Yerba Buena Way Site Remediation.

Under the DDA, the Agency has leased out to the developer Parcel 2 effective February 16, 2001. Rent on Parcel 2 began 28 months and 3 days from the effective date. The term of the lease is at least 75 years but no more than 80 years from the effective date of the lease. The Agency receives a specified amount of minimum rent subject to adjustment at times specified in the lease.

The following schedule summarizes the approximate future lease revenues to be received by the Agency from the lease of Parcel 2:

Fiscal Year	Amount
2008	\$3,639,002
2009	3,639,002
2010	3,639,002
2011	3,639,002
2012	3,639,002
Thereafter	231,531,502
	\$249,726,512

It is estimated that the DDA will yield approximately \$7 million per year at full build-out.

NOTE 6 - ENTERPRISE FUND MANAGEMENT AGREEMENTS

A. Santa Clara Convention and Visitors Bureau and Convention Center

In March 1984, the City entered into two separate management agreements with the Santa Clara Chamber of Commerce and Convention/Visitors Bureau, Inc. (Chamber). The first agreement with the Chamber is for the management of the operations of the Santa Clara Convention/Visitors Bureau. In fiscal year ended June 30, 2007, the City paid the Chamber \$1.37 million under this contract. The second management agreement between the City and the Chamber is for the management of the operations of the Santa Clara Conference and Convention Center (Convention Center). Under the terms of this agreement, the Chamber will receive for its services an annual management fee identified in the Convention Center budget and approved by the City Council. In fiscal year ended June 30, 2007, the Convention Center paid the Chamber \$45 thousand. Each agreement is extendible for an additional year at the end of each year. Either party may terminate the agreements by providing 180 days written notice.

B. American Golf Corporation

In May 1987, SOSA entered into a management agreement with American Golf Corporation (AGC) to manage the operations of the Santa Clara Golf and Tennis Club (SCG&TC). On June 4, 2002, SOSA approved an additional extension of the management agreement to June 30, 2007 and on March 12, 2007 this agreement was further extended to June 30, 2012. The terms of the extended management

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 6 - ENTERPRISE FUND MANAGEMENT AGREEMENTS (Continued)

agreement are essentially the same as the original agreement. Under the current agreement, AGC is entitled to receive an annual management fee equal to a fixed amount (currently about \$138 thousand per year) plus 3% of the gross revenues derived from the operation of SCG&TC. The fixed portion of the management fee is adjusted annually for changes in the consumer price index. In addition, AGC receives an annual administration fee of an amount not to exceed \$55 thousand. In fiscal year 2007, the City paid a total of \$294 thousand under this contract.

NOTE 7 – FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS

A. Disposition and Development Agreement (Original DDA)

A Disposition and Development Agreement dated November 1, 1988 and First Implementation Agreement dated January 17, 1990 (collectively, the Original DDA) was entered into by SOSA and a private developer for the lease of land owned by SOSA and phased development of the Fairway Glen Development Project consisting of seven parcels (74.29 acres) of multifamily residential rental housing and two parcels (9.3 acres) for a commercial center.

In April 1994, subsequent to the lease of the first two residential parcels and the completion of construction of Bella Vista Apartment Community (Phase R-1) on those parcels, the developer exercised the option to terminate the Original DDA as to all remaining phases of development. SOSA and the developer entered into discussions relative to a limited development of the remaining parcels. The discussions resulted in the Agreement to Amend Ground Lease (See Note 7B) and a new Disposition and Development Agreement (New DDA) for the development of Parcels R-3 and R-4 (See Note 7C).

B. Agreement to Amend Ground Lease

The Agreement to Amend Ground Lease (Agreement to Amend) was entered into by SOSA and the developer in February 1996.

Concurrent with the Agreement to Amend, SOSA and the Agency entered into a Cooperation Agreement (Cooperation). Under the Cooperation, a Master Lease was executed for Parcel R-1. The execution of a Master Lease resulted in the conversion of the Ground Lease into a Sublease and the assignment of SOSA's interest as lessor under the Ground Lease to the Agency at the time of the recordation of the Amended Sublease.

As provided in the Agreement to Amend, the Agency as Sublessor and the developer as Sublessee have entered into an Amended Sublease (Sublease) for Parcel R-1. The Sublease transforms the existing unsubordinated Ground Lease from SOSA to developer into a rent-subordinated sublease from the Agency to developer. The terms of the Sublease are intended to permit the developer to obtain financing secured by its subleasehold interest in the Sublease and the Agency's interest in the Master Lease.

Under the Sublease, the Agency is entitled to a minimum rent of \$1,200 per net acre monthly, or \$27,054 per month. The minimum rent is subject to adjustment at amounts calculated at times specified in the Amended Sublease. The minimum rent was adjusted to \$41,805 per month starting

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 7 – FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS (Continued)

July 2003 following the refinancing of the sublessee's interest in June 2003. The Agency is also entitled to additional rent calculated at a specified percentage of net operating income, operating cash flow, and as applicable, refinancing or sales proceeds. In fiscal year 2007, the Agency received \$502 thousand, \$64 thousand and \$63 thousand in minimum, percentage and participation rents, respectively. All amounts received by the Agency under the agreement are paid to SOSA. The Sublease provides for a maximum term of 75 years from August 15, 1996 that includes two ten-year option terms.

C. New Disposition and Development Agreement (New DDA)

In January 1996, the Agency and the developer entered into a New Disposition and Development Agreement (New DDA). The New DDA provides for the execution and recordation of Master Leases for Parcels R-3 and R-4 between SOSA and the Agency and for the subleasing of Parcels R-3 and R-4 from the Agency by the developer. Under the New DDA, the Agency has ground subleased Parcels R-3 and R-4 and the Developer has constructed thereon 252 and 276 housing units, respectively.

Under the terms of subleases, the Agency is entitled to a minimum rent payment of \$1,200 per net acre per month or \$11,945 per month for Nantucket (Parcel R-3) and \$12,970 per month for Carlyle (Parcel R-4). In addition, the Agency receives percentage and participation rents calculated in accordance with formulas specified in the subleases. Commencing with the rent payment of September 2005, the minimum rent for Parcel R-3 was adjusted to \$17,462 per month as a result of the refinancing of the sublessee's interest on the Nantucket Community in August 2005. Likewise, effective with the rent payment of May 2006, the minimum rent for Carlyle was adjusted to \$21,355 as a result of the refinancing of the sublessee's interest on the Carlyle Community in April 2006. In fiscal year 2007, the Agency received from Parcel R-3 sublease \$210 thousand and \$36 thousand in minimum and percentage rents, respectively; and from Parcel R-4 sublease, \$256 thousand, \$102 thousand and \$4 thousand in minimum, percentage and participation rents, respectively. All amounts received by the Agency under the foregoing agreements are paid to SOSA.

D. SOSA Future Lease Revenues

The following schedule summarizes the future minimum lease payments to be received by SOSA from the Fairway Glen Development Project (Note 7B & 7C) and from a separate lease agreement with a restaurant operator for a restaurant facility (David's) at the SCG&TC:

Fiscal Year Ending June 30	Fairway Glen Development Project			David's Restaurant	Total
	R-1 Bella Vista	R-3 Nantucket	R-4 Carlyle		
2008	\$ 501,660	\$ 209,544	\$ 256,260	\$ 52,000	\$ 1,019,464
2009	501,660	209,544	256,260	54,000	1,021,464
2010	501,660	209,544	256,260	54,000	1,021,464
2011	501,660	209,544	256,260	54,000	1,021,464
2012	501,660	209,544	256,260	54,000	1,021,464
Thereafter	19,648,350	8,276,988	10,698,855	18,000	38,642,193
Total	<u>\$ 22,156,650</u>	<u>\$ 9,324,708</u>	<u>\$ 11,980,155</u>	<u>\$286,000</u>	<u>\$ 43,747,513</u>

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 8 – CASH AND INVESTMENTS

Cash and Cash Equivalents

The City pools cash from all sources and all funds except restricted cash and investments with fiscal agent. Allocable portions of the pooled portfolio for each fund type are reported under the captions "Pooled cash and investments" and "Cash designated for construction." Interest income earned on pooled cash and investments is allocated to various funds based on average cash balances of each fund unless there are specific legal or contractual requirements to do otherwise.

Total cash and investments of the City was \$797.2 million as of June 30, 2007. This amount includes the City's cash and cash equivalents of \$723.8 million, and cash and investments with fiscal agents of \$73.4 million.

Of the City's total cash and investments, the following shows the allocation as presented on the accompanying statement of net assets:

Pooled cash and investment	\$ 706,653,899
Cash with fiscal agent	73,447,064
Total City cash and investments	<u>780,100,963</u>
Cash and investments in Fiduciary Funds (separate statement)	17,147,728
Total cash and investments	<u><u>\$ 797,248,691</u></u>

The City's cash and investments balances in governmental, enterprise, internal service funds, and agency funds were as follows:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Agency Funds	Total
Pooled cash and investments	\$ 179,250,636	\$ 415,141,137	\$ 13,517,484	\$ 16,937,146	\$ 624,846,403
Cash designated for construction	92,092,870	2,359,690			94,452,560
Investments with fiscal agent - current	8,720,100	13,261,909	19,976,851	210,582	42,169,442
Investments with fiscal agent - noncurrent	13,468,041	14,899,771			28,367,812
Trust	3,120,392				3,120,392
Deposits		4,292,082			4,292,082
Total cash and investments	<u><u>\$ 296,652,039</u></u>	<u><u>\$ 449,954,589</u></u>	<u><u>\$ 33,494,335</u></u>	<u><u>\$ 17,147,728</u></u>	<u><u>\$ 797,248,691</u></u>

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 8 – CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment strategy is to invest cash not required for current obligations in U. S. government securities, federal government agency securities, highly rated money market instruments and other investments in accordance with the City's investment policy for a maximum term of five years for the General Fund portfolio. The City Council has authorized the purchase of securities with maturities greater than five years, specifically for the Electric Cost Reduction Account. This strategy allows the City to minimize its exposure to credit, market, and liquidity risk while maintaining a reasonable return on its portfolio.

The City's investment policy, in compliance with the City of Santa Clara Charter, Article IX, Section 904 (d) and (h), and the California Government Code authorizes the City to invest in securities that are consistent with the City's cash management strategy and long-term goals and objectives. The City is authorized to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Securities (A)	5 years	N/A	None	None
Negotiable Certificates of Deposit	5 years	N/A	30%	None
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A1 / P1	25%	10%
California Local Agency Investment Fund	N/A	N/A	None	\$40M Per A/C
Repurchase Agreements	1 year	N/A	None	None
Reverse Repurchase Agreements (requires City Council approval)	92 days	N/A	None	None
Tax Exempt Municipal Bonds (for yield restriction purposes)	5 years	N/A	None	None
Medium Term Corporate Notes	5 years	Top three ratings categories	15%	None
Mutual Funds	N/A	Top rating category	20%	10%
Investment Pools	N/A	Top rating category	20%	10%

(A) Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 8 – CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements

The City invests bond proceeds designated for construction in instruments that are stated in the Investment Policy and in various return-guaranteed investment agreements. These investments are invested in accordance with bond indentures and the maturities of each investment should not exceed the final maturity of each bond. Bond proceeds investments are reported monthly to the City Council.

The City also maintains required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other agreements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance. For disclosure purposes, debt proceeds that comply with this provision are listed as follows:

Description	Invested Amount	Nature of Funds	Invested With	Maturity	Credit Rating
RDA Tax Allocation Bonds Series 2003	\$ 33,155,277	Bond Proceeds	Trinity Plus Funding Co., LLC	12/1/07	AAA
RDA Tax Allocation Bonds Series 1999	\$ 55,470,837	Bond Proceeds	Fidelity Investments	None	AAA

RDA bond proceeds designated for construction projects are invested by the City. Electric Reserve Fund proceeds are held by the trustee as fiscal agent investments. All funds have been invested as permitted under the Code. These investments are usually scheduled to mature when cash is needed to fulfill the requirements of the underlying bond and trust agreements. All investment transactions received prior approval from the City's Director of Finance before they are executed.

Interest Rate and Credit Risks

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To reduce interest rate risk, the City diversifies the portfolio into a wide range of investments with different maturities, maintains a reasonable average maturity of less than three years, and purchases callable bonds with only a one-time call feature. This approach significantly mitigates adverse market volatility and maximizes returns.

The average maturity of the City's pooled investment portfolio at June 30, 2007, was approximately 1.46 years and the City has the ability to and generally intends to hold all investments to maturity. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or call date, whichever is earlier.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements and the actual rating as of June 30, 2007, for each investment type:

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 8 – CASH AND INVESTMENTS (Continued)

Type of Investment	Credit Rating	Maturity					Carrying Value
		Under 180 Days	181 - 365 Days	1 - 3 Years	3 - 5 Years	Over 5 Years	
Pooled cash and investments:							
Cash (overdraft)	NA	(1,179,323)					(1,179,323)
U.S. Treasury notes and bonds	AAA	-	1,994,532				1,994,532
Federal Farm Credit Banks	AAA	-	2,963,438	2,977,500	-		5,940,938
Federal Home Loan Banks	AAA	23,966,875	26,725,313	5,909,063	-		56,601,250
Federal National Mortgage Association	AAA	74,385,950	103,942,500	102,908,934	-		281,237,384
Federal Home Loan Mortgage Corporation	AAA	41,888,189	113,627,973	56,312,775	-		211,828,937
Corporate notes	AAA	2,983,594	2,976,858	-	-		5,960,452
Corporate notes	AA	-	-	4,538,219			4,538,219
Commercial Papers	AAA	49,791,361					49,791,361
Mutual fund	AAA	6,551,018					6,551,018
Mutual fund	Not Rated	83,618					83,618
State Investment Pool	Not Rated	3,621,603					3,621,603
Total pooled investments in the City Treasury		<u>202,092,885</u>	<u>252,230,613</u>	<u>172,646,491</u>	<u>-</u>	<u>-</u>	<u>626,969,989</u>
Debt & Other investments:							
U.S. Treasury notes and bonds	AAA			19,921,593			19,921,593
Federal Farm Credit Banks	AAA		-	148,359	24,601	-	172,960
Federal Home Loan Banks	AAA	50,172	100,125	74,789	360,088	-	585,174
Federal National Mortgage Association	AAA	47,972		49,953		-	97,925
Federal Home Loan Mortgage Corporation	AAA	-			98,036		98,036
Corporate notes	AAA		-	-	49,953	123,346	173,299
Corporate notes	AA	-	49,013	48,845	-	250,741	348,599
Corporate notes	A	-	-	292,297			292,297
Corporate stock	A	513,555					513,555
Corporate stock	B	213,397					213,397
Corporate stock	Not Rated	308,874					308,874
Investment Agreements	AA			33,155,277			33,155,277
Investment Agreements	AA				3,549,796		3,549,796
Investment Agreements	A				9,265,000		9,265,000
Investment Agreements	A					5,011,567	5,011,567
Mutual fund	AAA	55,470,837					55,470,837
Mutual fund	AAA	3,375,783					3,375,783
Mutual fund	AAA	30,599,907					30,599,907
Mutual fund	AAA	4,292,082					4,292,082
Mutual fund	NR	316,276					316,276
Mutual fund	NR	210,582					210,582
Mutual fund	NR	75,520					75,520
State Investment Pool	Not Rated	2,230,366					2,230,366
Total non-city pooled investments		<u>97,705,323</u>	<u>149,138</u>	<u>53,691,113</u>	<u>13,347,474</u>	<u>5,385,654</u>	<u>170,278,702</u>
Total investments	\$	<u>299,798,208</u>	<u>252,379,751</u>	<u>226,337,604</u>	<u>13,347,474</u>	<u>5,385,654</u>	<u>797,248,691</u>

Note: Maturity is based on call dates for callable notes.

Corporate stocks were purchased by external manager for the Bentzien Trust with the approval of the City Council.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 8 – CASH AND INVESTMENTS (Continued)

The City accounts for investments in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires governmental entities to report certain investments at fair value based on quoted market information obtained from recognized sources. The City has reported its investments at fair value with the exception of its share of external investment pools and mutual funds, the carrying value of which approximates fair value. In determining the change in fair value of its investments, the City used an aggregate method of calculation. The entire portfolio was valued at the beginning and end of the year and the change in fair value, net of purchases and maturities during the year, was reported as a \$4.5 million increase in investment earnings. The aggregate method resulted in a net decrease of 4.3% or \$32.6 million in the balance of the City's pooled cash investments as of June 30, 2007.

Concentration of Credit Risk

Investments in the securities of any individual issuers that represent 5% or more of total City-wide investments are shown in the table below:

Fund	Issuer	Bond-rating	Fair Value	Expiration	% of Holding
General	General Electric Capital Corporation	AA	\$ 49,791,361	7/30/07	6.2%
General	Federal Home Loan Banks	AAA	\$ 57,186,424	N/A	7.2%
General	Federal National Mortgage Association	AAA	\$ 281,335,309	N/A	35.3%
General	Federal Home Loan Mortgage Corporation	AAA	\$ 211,926,973	N/A	26.6%
RDA	Fidelity Investment	AAA	\$ 55,470,837	N/A	7.0%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

City has no deposits or investments that are not held in the manners described above.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 8 – CASH AND INVESTMENTS (Continued)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments that are highly sensitive to interest rate fluctuations to a greater degree than already in the Interest Rate Risk Section above.

Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The carrying value of LAIF approximates fair value.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES

A. Interfund Transfers

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2007, were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
General Fund	Redevelopment Agency	\$ 9,653,325	A
	Sports and Open Space Authority	2,733,318	B
	Non-Major Governmental	1,209,674	C
Non-Major Governmental	General Fund	10,903,338	D
	Redevelopment Agency	36,781	E
	Electric Utility	30,000	G
	Electric Utility	873,895	F
	Water Utility	151,785	F
	Sewer Utility	43,080	F
	Solid Waste	59,160	F
	Cemetery	3,300	F
Internal Service Funds	General Fund	707,800	M
Water Utility	Water Recycling Utility	525,000	H
Solid Waste	General Fund	504,160	I
Cemetery	Non-Major Governmental	40,637	L
Sports and Open Space Authority	Santa Clara Golf and Tennis Club	1,416,053	J
Santa Clara Convention Center	General Fund	255,041	K
Total Interfund Transfers		<u>\$ 29,146,347</u>	

The reasons for material transfers are set forth below:

- (A) Transfer per the cooperation agreement between general fund and RDA.
- (B) Transfer per the cooperation agreement between general fund, SOSA and Santa Clara Convention Center.
- (C) Transfer to general fund from capital project funds to return unspent project funds.
- (D) Transfer to fund various projects in the capital funds and pay debt service.
- (E) Transfer to fund housing projects included in the HUD Special Revenue Fund.
- (F) Transfer to fund their respective share of financial, human resources software, utility billing and other projects.
- (G) Transfer to fund street tree planting and community activities.
- (H) Transfer to fund Water Recycling Activities.
- (I) Transfer to subsidize operations.
- (J) Transfer lease payments from American Golf, Interland, and others in accordance with the lease agreements.
- (K) Transfer to pay back monthly advances from City plus budget surplus/deficit.
- (L) Transfer of interest earned on Endowment Trust Funds.
- (M) Transfer to fund Workers' Compensation Claims.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)

B. Current Interfund Balances

Current Interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of Interfund balances as of June 30, 2007.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Santa Clara Convention Center	\$ 1,561,786
	Non-Major Governmental	112,854
Non-Major Governmental	Internal Service Fund	<u>12,330</u>
	Receivable by Governmental Funds	<u>\$ 1,686,970</u>
Electric Utility	Internal Service Fund	\$ 1,551,471
Water Utility	Internal Service Fund	56,132
Cemetery	Internal Service Fund	148,267
Sewer	Internal Service Fund	283,708
Solid Waste	Internal Service Fund	<u>911,904</u>
	Receivable by Enterprise Funds	<u>\$ 2,951,482</u>
Internal Service Fund	Internal Service Fund	\$ 188,813
	Water Utility	<u>153,291</u>
	Receivable by Internal Service Funds	<u>\$ 342,104</u>

Note: The City uses due to/due from as a balancing mechanism in funds with positive cash balances.

C. Long-Term Interfund Advances

At June 30, 2007 the funds below had made advances which were not expected to be repaid within the next year.

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount of Advance</u>
Redevelopment Agency	General Fund	\$ 8,958,325
Cemetery	General Fund	1,935,910
Santa Clara Golf & Tennis Club	General Fund	<u>3,774,134</u>
Total Advances		<u>\$ 14,668,369</u>

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)

Redevelopment Agency Fund has a \$8,958,325 advance that bears interest which is based on the City's portfolio rate, and will be repaid to General Fund in annual installments after fulfilling the Agency's debt service, capital project, and 20% housing set-aside transfer obligations.

Cemetery Fund has a \$1,935,910 advance that bears no interest and will be repaid when funds become available. The advance is a long-term subsidy of operations pending mausoleum project funding in future years, which is expected to generate additional revenues.

Santa Clara Golf and Tennis Club Fund has a \$3,774,134 advance which does not bear interest, and will be repaid in annual installments after completion of capital improvements from income generated by these capital improvements.

D. Internal Balances

Internal balances represent the net Interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 10 - CAPITAL ASSETS

A. Capital Assets Summary

Capital Assets at June 30 comprise:

	Balance June 30, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Governmental Activities					
Non Depreciable Assets:					
Land	\$ 104,962,640	\$ 10,612,576	\$ -	\$ (3,575,528)	\$ 111,999,688
Construction In Progress	26,668,249	15,332,086	-	(30,028,499)	11,971,836
Total Non Depreciable Assets	131,630,889	25,944,662	-	(33,604,027)	123,971,524
Capital Assets being depreciated:					
Land Improvements	16,769,005	-	-	690,190	17,459,114
Buildings & Improvements	129,716,515	-	-	18,291,806	148,008,321
Machinery & Equipment	62,746,414	3,104,843	(1,415,436)	2,441,693	66,877,514
Infrastructure	390,688,404	910,758	-	9,854,472	401,453,634
Total Capital Assets being depreciated	599,920,338	4,015,601	(1,415,436)	31,278,080	633,798,583
Less accumulated depreciation for:					
Land Improvements	(3,658,838)	(778,210)	-	-	(4,437,048)
Buildings & Improvements	(18,192,682)	(2,885,239)	-	-	(21,077,921)
Machinery & Equipment	(34,696,872)	(6,165,569)	1,379,665	-	(39,482,776)
Infrastructure	(130,560,245)	(10,727,497)	-	-	(141,287,742)
Total accumulated depreciation	(187,108,637)	(20,556,515)	1,379,665	-	(206,285,487)
Net Depreciable Assets	412,811,701	(16,540,914)	(35,771)	31,278,080	427,513,096
Governmental Activity Net Capital Assets	<u>\$ 544,442,590</u>	<u>\$ 9,403,748</u>	<u>\$ (35,771)</u>	<u>\$ (2,325,947)</u>	<u>\$ 551,484,620</u>
Business-Type Activities					
Non Depreciable Assets:					
Land & Improvements	\$ 16,838,298	\$ -	\$ (766,052)	\$ 11,475	\$ 16,083,721
Construction In Progress	6,321,958	9,100,457	-	(10,748,571)	4,673,844
Total Non Depreciable Assets	23,160,256	9,100,457	(766,052)	(10,737,096)	20,757,565
Capital Assets being depreciated:					
Buildings & Improvements	819,698,212	242,542	-	12,452,471	832,393,225
Machinery & Equipment	14,784,933	317,705	(700,078)	610,572	15,013,132
Total Capital Assets being depreciated	834,483,145	560,247	(700,078)	13,063,043	847,406,357
Less accumulated depreciation for:					
Buildings & Improvements	(299,156,319)	(19,162,012)	-	-	(318,318,331)
Machinery & Equipment	(11,510,229)	(902,509)	706,901	-	(11,705,837)
Total accumulated depreciation	(310,666,548)	(20,064,521)	706,901	-	(330,024,168)
Net Depreciable Assets	523,816,597	(19,504,254)	6,823	13,063,043	517,382,189
Enterprise Activity Net Capital Assets	<u>\$ 546,976,853</u>	<u>\$ (10,403,817)</u>	<u>\$ (759,229)</u>	<u>\$ 2,325,947</u>	<u>\$ 538,139,754</u>

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 10 – CAPITAL ASSETS (Continued)

Construction in progress for governmental activities as of June 30, 2007, consisted of the following projects:

<u>Government Projects</u>	<u>Authorized</u>	<u>Expended</u>	<u>Future Commitments</u>
Transportation Improvements	\$ 8,328,902	\$ 1,991,249	\$ 6,337,653
Technology Application & Implementation Projects	774,477	611,040	163,437
Redevelopment Agency Projects	49,387,240	4,344,642	45,042,598
City Building Improvements	15,131,720	4,905,873	10,225,847
Parks and Recreation Facilities Improvement	<u>1,352,096</u>	<u>119,032</u>	<u>1,233,064</u>
	<u>\$ 74,974,435</u>	<u>\$ 11,971,836</u>	<u>\$ 63,002,599</u>

Construction in progress for business-type activities as of June 30, 2007, consisted of the following:

<u>Enterprise Fund Projects</u>	<u>Authorized</u>	<u>Expended</u>	<u>Future Commitments</u>
Electric Projects	\$ 10,639,492	\$ 1,427,991	\$ 9,211,501
Water/Sewer/Solid Waste Projects	2,544,540	1,236,888	1,307,652
Santa Clara Convention Center Projects	<u>19,432,000</u>	<u>2,008,965</u>	<u>17,423,035</u>
	<u>\$ 32,616,032</u>	<u>\$ 4,673,844</u>	<u>\$ 27,942,188</u>

Details of these projects are available from the City on request.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 10 – CAPITAL ASSETS (Continued)

B. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities:

General Administration	\$ 3,058,546
City Clerk	1,395
City Attorney	560
Human Resources	7,350
Finance	71,865
Public Works	11,422,720
Parks and Recreation	1,166,425
Public Safety	
Police*	1,380,520
Fire	608,159
Planning & Inspection	188,518
Library	<u>1,158,028</u>
Subtotal	19,064,086

Capital assets held by the City's Internal Service

Funds are charged to the various functions based on their usage of the assets	<u>1,492,429</u>
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Total Governmental Activities	\$ <u><u>20,556,515</u></u>
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Business-type Activities

Utility Funds:	
Electric Utility	\$ 16,136,531
Water Utility	1,005,097
Sewer Utility	458,589
Solid Waste	18,567
Cemetery	36,711
Santa Clara Golf and Tennis Club	813,859
Santa Clara Convention Center	<u>1,595,167</u>

Total Business-type Activities	\$ <u><u>20,064,521</u></u>
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* As of the beginning of Fiscal Year 2005-2006, the Communication Department was incorporated into the Police Department

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – LONG-TERM OBLIGATIONS

As of June 30, 2007, outstanding long-term obligations consisted of the following:

<u>Type of Indebtedness</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rates</u>
Governmental Activity Debt:			
General Long Term Debt:			
Special Assessment Bonds With City Commitment	12/1/1998	9/2/2011	4.10-5.20
1997 Certificates of Participation	7/1/1997	8/1/2022	4.50-5.375
2002A Certificates of Participation	11/14/2002	2/1/2032	3.00-5.00
2002B Certificates of Participation	11/14/2002	2/1/2014	3.00-4.50
Redevelopment Agency Obligations:			
Bayshore North Project 1992 TA and Refunding Bonds	10/22/1992	7/1/2014	7.00
Bayshore North Project-1999 TA Bonds Series A	8/1/1999	6/1/2023	5.25-5.50
Bayshore North Project-1999 TA Bonds Series B	8/1/1999	6/1/2017	5.25-5.50
Bayshore North Project-2002 TA Refunding Bonds	6/6/2002	6/1/2014	4.00-5.50
Bayshore North Project-2003 TA Bonds	5/14/2003	6/1/2023	5.00
Internal Service Long Term Debt:			
Insurance Funding Bonds-Series 1987	4/13/1987	4/1/2012	3.00
Business Type Activity Debt:			
Enterprise Long Term Debt:			
Electric Utility:			
1985 Series A Revenue Bonds	8/1/1985	7/1/2010	Adjustable
1985 Series B Revenue Bonds	8/1/1985	7/1/2010	Adjustable
1985 Series C Revenue Bonds	8/1/1985	7/1/2010	Adjustable
1991 Series B Revenue Refunding Bonds	1/28/1992	7/1/2007	5.20-6.35
1998 Series A Revenue Bonds	3/1/1998	7/1/2027	4.50-5.25
2003 Series A Revenue Bonds	10/9/2003	7/1/2028	2.50-5.25
2003 Series B Revenue Bonds	10/9/2003	7/1/2034	Adjustable
Less Unamortized Discount			
Total of Electric Utility Revenue Bonds			
Water Recycling Utility:			
State Water Resource Control Board Loan	1/9/1989	1/22/2009	4.0128
Subtotal Business-type Activity Debt			
Total Long-Term Obligations			

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

<u>Authorized and Issued</u>	<u>Outstanding as of June 30, 2006</u>	<u>Debt Retired</u>	<u>Additions and Amortization of Discounts</u>	<u>Outstanding as of June 30, 2007</u>	<u>Current Portion</u>
\$ 10,325,000	\$ 5,875,000	\$ 860,000	\$ -	\$ 5,015,000	\$ 905,000
16,050,000	13,450,000	510,000	-	12,940,000	535,000
25,025,000	23,850,000	515,000	-	23,335,000	530,000
33,505,000	26,045,000	2,470,000	-	23,575,000	2,545,000
74,240,000	26,630,000	4,630,000	-	22,000,000	4,955,000
31,550,000	31,550,000	-	-	31,550,000	-
16,905,000	16,905,000	-	-	16,905,000	-
33,910,000	21,180,000	-	-	21,180,000	-
43,960,000	43,960,000	-	-	43,960,000	-
<u>285,470,000</u>	<u>209,445,000</u>	<u>8,985,000</u>	<u>-</u>	<u>200,460,000</u>	<u>9,470,000</u>
<u>20,000,000</u>	<u>20,000,000</u>	<u>-</u>	<u>-</u>	<u>20,000,000</u>	<u>-</u>
<u>\$ 305,470,000</u>	<u>\$ 229,445,000</u>	<u>\$ 8,985,000</u>	<u>-</u>	<u>\$ 220,460,000</u>	<u>\$ 9,470,000</u>
\$ 25,000,000	\$ 10,800,000	\$ 2,100,000	\$ -	\$ 8,700,000	\$ 2,200,000
25,000,000	10,800,000	2,100,000	-	8,700,000	2,200,000
28,300,000	12,200,000	2,300,000	-	9,900,000	2,500,000
23,194,000	4,024,558	2,080,000	125,442	2,070,000	2,070,000
89,275,000	84,460,000	600,000	-	83,860,000	690,000
100,000,000	97,425,000	2,640,000	-	94,785,000	2,710,000
50,000,000	50,000,000	-	-	50,000,000	-
-	(5,123,504)	-	300,151	(4,823,353)	-
<u>340,769,000</u>	<u>264,586,054</u>	<u>11,820,000</u>	<u>425,593</u>	<u>253,191,647</u>	<u>12,370,000</u>
<u>975,000</u>	<u>172,668</u>	<u>67,319</u>	<u>-</u>	<u>105,349</u>	<u>70,021</u>
<u>341,744,000</u>	<u>264,758,722</u>	<u>11,887,319</u>	<u>425,593</u>	<u>253,296,996</u>	<u>12,440,021</u>
<u>\$ 647,214,000</u>	<u>\$ 494,203,722</u>	<u>\$ 20,872,319</u>	<u>\$ 425,593</u>	<u>\$ 473,756,996</u>	<u>\$ 21,910,021</u>

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

A. City Long-term Obligations

Special Assessment Bonds with City Commitment

On December 1, 1998, the City completed the sale of the Santa Clara Convention Center Complex Improvement Project Reassessment District No. 186 Series 1998 Bonds (SCCC 1998 Bonds) having a par value of \$10.33 million. The SCCC 1998 Bonds were issued to refund the Santa Clara Convention Center Complex Improvement Project Reassessment District No. 183 Series 1985 Bonds totaling \$10.34 million. The Reassessment Bonds consist of \$3.63 million of serial bonds maturing from 2000 to 2005; \$4.55 million of term bonds maturing from 2006 to 2010; and \$2.16 million of term bonds maturing from 2011 to 2011. The District consists of two parcels, both owned by the Redevelopment Agency of the City of Santa Clara and subject to ground leases. Debt service on the SCCC 1998 Bonds is primarily payable from annual installments of unpaid reassessments. Special assessment bonds are collateralized by liens against the properties benefited and debt service payments on each issue are made from assessments included on the County tax roll. The City is entitled to recover any delinquent payments either from the property owner or from the proceeds of a foreclosure sale.

With the exception of the SCCC 1998 Bonds, the City has no duty to transfer into the redemption fund the amount of the delinquency out of available funds of the City, other than from the reserve fund. Therefore, special assessment bonds other than the SCCC 1998 Bonds are reported under Agency Fund in the financial statements because they are not considered as the City's long-term obligations.

1997 Police Administration Building Project Certificates of Participation

On May 19, 1997, the City Council established the Santa Clara Public Facilities Financing Corporation (PFFC). The PFFC was the issuing agency for the 1997 Police Administration Building Project Certificates of Participation (1997 COP). In July 1997, the PFFC, issued a \$16.05 million 25-year COP. The issue consists of \$11.73 million of serial bonds maturing from 2000 to 2018 and \$4.32 million of term bonds maturing in 2022. Debt service on the 1997 COP is secured by lease payments to be made by the City to the PFFC for the use of the Police Administration Building site. The PFFC assigns lease payments to the certificate-holders.

2002 Certificates of Participation, Series A Bonds

On November 14, 2002, the City's PFFC issued \$25.03 million of the 2002 Certificates of Participation, Series A Bonds (2002A COP). Proceeds of the 2002A COP were used to construct the City's Central Park Library. The 2002A COP matures serially in years 2004 through 2032, and bear interest at 3.0% to 5.0%. Debt service on the 2002A COP is secured by lease payments to be made by the City to the PFFC for the use of the library. The PFFC assigns the lease payments to the certificate owners.

2002 Certificates of Participation, Series B Bonds

On November 14, 2002, the City's Sports and Open Space Authority (SOSA) issued \$33.51 million of the 2002 Certificates of Participation, Series B Bonds (2002B COP). Proceeds of the 2002B COP were used

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

to redeem outstanding balances of the LGFA Bonds and the 1993 COP. The 2002B COP matures serially in years 2003 through 2014, and bear interest at 3.0% to 4.5%. Debt service on the 2002B COP is secured by lease payments between the City and SOSA for the use of the golf course property and related facilities. SOSA assigns the lease payments to the certificate owners.

Compliance

Various debt agreements governing the City's bonds contain a number of covenants, including continuing disclosure requirements. The City is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event or default as defined in the bond indentures has occurred or is occurring.

B. Redevelopment Agency Long-term Obligations

Bayshore North Project 1992 Tax Allocation Refunding Bonds

On October 22, 1992, the Agency issued \$74.24 million of the Bayshore North Project 1992 Tax Allocation Refunding Bonds 1992 Bonds (RDA 1992 Bonds). Proceeds of the RDA 1992 Bonds along with other available funds were deposited into two escrow funds. These escrow funds were used to advance refund a portion of the RDA 1987 Bonds and the RDA 1988A Bonds, and to reimburse the City for lease payments made by the City with respect to the RDA 1986 Refunding Certificates of Participation (Santa Clara Convention Center). The advance refunded portion of the RDA 1988 Bonds was retired on June 1, 1998. On June 6, 2002, the City exercised its option to redeem \$34.29 million of the RDA 1992 Bonds using proceeds of the Bayshore North Project 2002 Tax Allocation Refunding Bonds (RDA 2002 Bonds). The redemption price was \$102. The remaining balance, \$26.63 million, of the RDA 1992 Bonds will mature on July 1, 2014. Debt service on the RDA 1992 Bonds is secured by tax increment revenue of the Agency.

Bayshore North Project 1999 Tax Allocation Bonds, Series A

On August 1, 1999, the Agency issued \$31.55 million of Bayshore North Project 1999 Tax Allocations Bonds, Series A (RDA 1999A Bonds) to partially fund the construction of a multi-story parking garage and a soccer park. The garage is located in the vicinity of the Great America Theme Park and the Santa Clara Convention Center Complex and the soccer park is located near Tasman Drive. The RDA 1999A Bonds mature serially in years 2017 through 2019, with final maturity in year 2023. The bonds are subject to mandatory sinking fund redemption between 2020 and 2023 and optional redemption is available beginning June 1, 2009. The RDA 1999A Bonds bear interest rates between 5.25% and 5.50%. The bonds are insured by the Ambac Assurance Corporation. Debt service of the RDA 1999A Bonds is funded by the Agency's tax increment revenues.

Bayshore North Project 1999 Tax Allocation Bonds, Series B

On August 1, 1999, the Agency issued \$16.91 million of Bayshore North Project 1999 Tax Allocation Bonds, Series B, (RDA 1999B Bonds) to partially fund the construction of the multi-story parking garage

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

that was also funded by the RDA 1999A Bonds. The RDA 1999B Bonds mature serially in years 2011 through 2017. Optional redemption by the City is available beginning June 1, 2009. The RDA 1999B Bonds bear interest rates between 5.25% and 5.50%. The Bonds are insured by the Ambac Assurance Corporation. Debt service of the RDA 1999A Bonds is funded by the Agency's tax increment revenues.

Bayshore North Project 2002 Tax Allocation Bonds

On June 6, 2002, the Agency issued \$33.91 million of Bayshore North Project 2002 Tax Allocation Bonds (2002 Bonds), with an effective interest rate ranging from 4.0% to 5.5% for a term of 12 years. The proceeds of the 2002 Bonds were used to retire a portion of 1992 Bonds. Debt service for the bonds is funded from property taxes levied against the property owners.

Bayshore North Project 2003 Tax Allocation Bonds

On May 14, 2003, the Agency issued \$43.96 million of Bayshore North Project 2003 Tax Allocation Bonds (RDA2003 Bonds) to fund various Agency projects. The RDA2003 Bonds mature serially in years 2015 through 2023, and bear interest at 5.0%. The Bonds are insured by the MBIA Insurance Corporation. Debt service of the RDA2003 Bonds is funded by the Agency's tax increment revenues.

Compliance

Various debt agreements governing the Agency's bonds contain a number of covenants, including continuing disclosure requirements. The Agency is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

C. Internal Service Fund Obligations

The Insurance Funding Bonds, Series 1987 (Insurance Bonds) are special obligations of the City payable from the proceeds of the Insurance Bonds. The proceeds were placed in an insurance fund and invested solely in federal securities sufficient to pay interest and principal. The purpose of the Insurance Bonds is to pay monetary damages of \$100,000 or more when a court of competent jurisdiction enters judgment against the City. In the event the City withdraws all or a portion of the amount on deposit in the insurance fund to pay a judgment, a principal amount of Insurance Bonds equal to such withdrawal will be converted to general obligation bonds. As of June 30, 2007, the City has incurred no judgments that required a withdrawal from the insurance fund.

The Insurance Bonds are subject to mandatory purchase and remarketing on April 1 every three years. On April 1, 2005, the Insurance Bonds were remarketed and the interest rate was reset to 3.00%. The next scheduled date to remarket the bonds will be April 1, 2008. Since the Insurance Bonds are collateralized by the Liability Self-Insurance Fund, they are not included in the table of future debt service requirements.

The trust indenture governing the issuance of the Insurance Bonds contains certain covenants, including the obligation on the part of the City to rebate excess investment earnings (arbitrage), if any, to the Internal

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

Revenue Service. The City is in compliance with the debt covenants, and no event of default as defined in the indenture has occurred or is occurring.

D. Enterprise Funds

Electric Utility

1985 Floating Rate Electric Revenue Bonds, Series A, B and C

The City's 1985 Floating Rate Electric Revenue Bonds, Series A, B and C (1985 Series A, B and C Bonds) amounting to \$25 million, \$25 million, and \$28.3 million, respectively, were issued to provide for the redemption of the 1984 Series B Electric Revenue Bonds. They bear interest at an adjustable rate, which is determined weekly. The 1985 A, B and C Bonds may be tendered by the holders for purchase at a price equal to 100% of the principal amount of any bond tendered, plus accrued and unpaid interest. Bonds tendered for purchase will be remarketed and the proceeds of the remarketing will be used to pay the purchase price of the tendered bonds. To provide funds to pay the purchase price of any tendered bonds, which were unable to be marketed, the City initially obtained an irrevocable letter of credit from National Westminster Bank, PLC. In August 1999, the letter of credit was replaced with a Municipal Bond Insurance Policy issued by Ambac Assurance Corporation and a standby Bond Purchase Agreement with JPMorgan Chase. Debt service on the 1985 Series A, B and C Bonds is payable from the annual revenues of the Electric Utility Enterprise Fund.

1991 Series B Electric Revenue Refunding Bonds

In January 1992, the City issued \$23.19 million 1991 Series B Electric Revenue Refunding Bonds (Electric 1991B Bonds), net of \$601 thousand in original issue discount. \$2.56 million of the Electric 1991B Bonds were issued as discount capital appreciation bonds (CAB), which gradually increase in value until maturity. On July 1, 2002, the City exercised the option to redeem \$10.32 million of the Electric 1991B Bonds. The remaining portion of the Electric 1991B Bonds, which is the CAB matures in 2007. The issue amount, maturity date, current and future value of the CAB at maturity is as follows:

<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Value at 6/30/2007</u>	<u>Value at Maturity</u>
\$ 789,208	7/1/2007	\$ 2,070,000	\$ 2,070,000

Subordinated Electric Revenue Refunding Bonds, 1998 Series A

On March 1, 1998, the City issued \$89.28 million of the 1998 Subordinated Electric Revenue Refunding Series A Bonds (Electric 1998A Bonds). The Bonds mature annually in serial amounts through July 1, 2027 and bear coupon rates ranging from 4.50% to 5.25%. The Electric 1998A Bonds net proceeds totaling \$86.06 million were deposited into an escrow fund. Principal and interest from the escrow fund were applied to retire \$81.65 million of Electric 1991A Bonds on July 1, 2001. Debt service on the Electric

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

1998A Bonds is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service payment is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Refunding Bonds, 2003 Series A

On October 9, 2003, Silicon Valley Power issued \$100 million of the Subordinated Electric Revenue Bonds, Series 2003A (Electric 2003A Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003A Bonds mature annually in serial amounts through July 1, 2025 with the final Term Bond maturity of July 1, 2028 and bear coupon rates ranging from 2.50% to 5.25%. Debt service on the Electric 2003A Bonds is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service on the 2003A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Refunding Bonds, 2003 Series B

On October 9, 2003, Silicon Valley Power issued \$50 million of the Subordinated Electric Revenue Bonds, Series 2003B (Electric 2003B Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003B Bonds mature annually in serial amounts from July 1, 2028 to July 1, 2034. Coupon rates of the Electric 2003B Bonds are set every 28 days. Debt service on the Electric 2003B is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service on the 2003B Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Water Recycling Utility

The State Water Resource Control Board Loan was issued for the design and construction of pumping facilities and a pipeline to deliver reclaimed water to the City's golf course. Debt service on the loan is payable from the annual revenues of the Water Recycling Utility Enterprise Fund.

Compliance

Various debt agreements governing the Enterprise Funds' revenue bonds contain a number of covenants, including those that require the City to maintain and preserve the respective enterprise in good repair and working order, to maintain certain levels of insurance and to fix and collect rates, fees and charges so as to maintain certain debt coverage ratios. The City is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

E. Repayment Requirements

As of June 30, 2007, the debt service requirements to maturity for the City's and the Agency's long-term obligations and the funds from which payment will be made are as follows:

	<u>Government Activities</u>		<u>Business-Type Activities</u>	
For the Year Ending June 30	Principal	Interest	Principal	Interest
2008	\$ 9,470,000	\$ 10,154,713	\$ 12,440,020	\$ 11,278,503
2009	10,000,000	9,620,661	11,415,329	10,906,830
2010	10,555,000	9,047,030	11,980,000	10,492,151
2011	17,635,000	8,428,543	8,365,000	9,916,376
2012	12,110,000	7,710,550	5,775,000	9,714,851
2013-2017	56,165,000	29,925,814	34,130,000	44,168,293
2018-2022	59,135,000	15,948,216	45,205,000	34,549,008
2023-2027	18,295,000	3,272,344	59,295,000	21,569,707
2028-2032	7,095,000	1,098,500	43,690,000	7,867,147
2033-2035	-	-	25,825,000	965,490
	<u>\$ 200,460,000</u>	<u>\$ 95,206,370</u>	<u>\$ 258,120,349</u>	<u>\$ 161,428,356</u>

Reconciliation of Long-term Obligations

Principal outstanding as reported above	\$ 458,580,349
Plus Insurance Refunding Bonds	20,000,000
Deduct Unamortized discount - Electric Revenue Bonds	<u>(4,823,353)</u>
Total Long-term Obligations	<u>\$ 473,756,996</u>

F. Defeasances

The following is a summary of the refunding issues, the issues defeased, and the remaining principal balance of the defeased debt for the City as of June 30, 2007:

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

<u>Issue Defeased</u>	<u>Issue</u>	<u>Defeased</u>	<u>Bonds</u>	<u>Issue</u>
Bayshore North 1992 Tax Allocation & Refunding Bonds	5.75%	\$ 34,290,000	\$21,860,000	Bayshore North 2002 Tax Allocation & Refunding Bonds

The proceeds from the above refunding issues are placed in irrevocable escrow accounts overseen by independent bank fiscal agents. These proceeds are generally invested in U. S. Treasury Securities, which together with earned interest, will provide amounts sufficient for future payment of interest, principal, and redemption premium on the defeased bonds. These escrow accounts are not included as assets of the City. The defeased bonds are excluded from the City's long-term obligations because the arrangement satisfies legal requirements of defeasance.

G. Debt Limitations and Restrictions

The amounts of the City's legal debt limit and debt margin (as defined by Section 1309 of the City Charter) as of June 30, 2007, are \$3.05 billion and \$3.03 billion, respectively. There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations, covenants and restrictions.

H. Arbitrage

According to the regulations set forth by the U. S. Treasury Department, for bond issues subject to arbitrage rebate, earnings in excess of the stated bond rate must be rebated to the federal government every five years. As of June 30, 2007, the City has fifteen outstanding bond issues that are subject to the arbitrage rebate regulations. The City monitors the earnings on each of these issues and records any accrued rebate liability at the end of each individual bond year.

I. Special Assessment Debt Without City Commitment

Special assessment districts have been established in various parts of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements; these assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. With the exception of the Santa Clara Convention Center Improvement Project No. 186, the City is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment districts. Nor is it obligated to advance available City funds to repay

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

this debt in the event of default by any of these districts. At June 30, 2007, the balance of these districts' outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/07
			Annual Amount	Fiscal Years ended	
Mill Creek - District No. 1 Traffic Mitigation District 1988-1	1995	7.01%-7.12%	\$ 265,000-365,000	1998-2011	\$ 1,605,000
Division No. 2	1996	5.90%	\$ 285,000-380,000	1998-2012	1,985,000
Mission College/Mercado No. 187	1998	7.00%	\$ 490,000-600,000	1999-2011	2,720,000
					<u>\$ 6,310,000</u>

The City recognizes an obligation to transfer funds from its available funds to cover any delinquency in the assessments for the Santa Clara Convention Center Improvement Project No. 186, primarily because the City owns the land upon which the improvements were made.

NOTE 12 - SOLID WASTE LANDFILL CLOSURE

At June 30, 2007, the balance of the Solid Waste Landfill Postclosure Obligation was as follows:

Type of Indebtedness	Outstanding as of June 30, 2006	Reduction	Outstanding as of June 30, 2007
Solid Waste Landfill Postclosure Obligation	<u>\$ 5,425,066</u>	<u>\$ 542,595</u>	<u>\$ 4,882,471</u>

The City of Santa Clara All Purpose Landfill (Landfill) was closed in September 1993. Federal and state laws and regulations require closure activities such as removal of landfill structures, decommissioning of environmental control systems, site security, and final cover construction and postclosure care such as ongoing monitoring of environmental impact. The City's postclosure plan (Plan) accepted by the California Integrated Waste Management Board (CIWMB) addresses all the attendant issues. Based on the Plan and pertaining laws and regulations, an estimated Landfill Postclosure Care Cost Obligation is recorded and updated annually. The postclosure care liability is accrued in the Solid Waste Enterprise Fund in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. As of June 30, 2007, the estimated liability totaled \$4.88 million. This obligation is payable from solid waste user fees and any related subsidy from the General Fund.

The City also has a Pledge of Revenue Agreement establishing financial assurance for postclosure maintenance of the Landfill with the CIWMB. As of June 30, 2007, the total pledge amount is \$663 thousand. This amount is reviewed annually and updated for the increase in the San Francisco Bay Region Consumer Price Index.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 13 – PARTICIPATION IN JOINT VENTURES

A. Investments in Joint Venture

The City participates in significant joint ventures: Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC), M-S-R Public Power Agency (MSR) and Silicon Valley Animal Control Authority (SVACA).

The separately issued financial statements of these joint ventures (as noted below) are available on request.

	<u>NCPA</u>	<u>TANC</u>	<u>SJSC</u>	<u>MSR</u>	<u>SVACA</u>
Date of latest audited financial statement	6/30/06	6/30/06	6/30/06	12/31/06	6/30/06
Participant's address	180 Cirby Way Roseville, CA 95678	P.O. Box 15129 Sacramento, CA 95851	200 E. Santa Clara St. San Jose, CA 95113	P.O. Box 4060 Modesto, CA 95352	2324 Walsh Ave. Santa Clara, CA 95051

The City's basic financial statements reflect the following investments in joint ventures as of June 30, 2007:

	<u>NCPA</u>	<u>TANC</u>	<u>SJSC</u>	<u>MSR</u>
Participating percentage	36.0%	20.2%	16.1%	35.0%
Investment	\$19,704,755	\$76,412	\$95,778,458	-
Method of accounting	Equity	Equity	Equity	Equity

B. Contingent Liability

Under the terms of the various joint venture agreements, the City is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements. Based on the most recent audited financial statements of the individual joint ventures, the City was contingently liable for long-term debt as follows (in thousands):

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

	Total Debt	City's Participating Share	City's Contingent Liability
TANC	\$ 360,244	20.2%	\$ 72,769
NCPA	664,904	36.0%	239,365
SJSC	49,153	16.1%	7,896
MSR	362,029	35.0%	126,710
Total	<u>\$ 1,436,330</u>		<u>\$ 446,740</u>

In addition, the City would, under certain conditions, be liable to pay a portion of the costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and seek reimbursement from those participants.

C. Northern California Power Agency (NCPA)

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority, one transit district, and two other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative for each member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Hydroelectric Project

NCPA contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

Geothermal Project

The NCPA Geothermal Plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generation projects at full capability (238MW), by 1988 NCPA changed its steam field production from baseload to load-following and reduced average annual steam production. Despite the implementation of operating strategies to further reduce the rate of decline in steam production, including the construction of an effluent pipeline from a neighboring sanitation district, and modifications to the steam turbines and associated steam collection system, the average annual generation for 2006 was 123 MW gross.

Based upon current operation protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 98 MW by the year 2015 and remaining in excess of 72 MWG through 2031, the end of the study period.

Combustion Turbine Project No. 1

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

D. Transmission Agency of Northern California (TANC)

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed the major environmental requirements. As of June 30, 2006, the most recent data available, TANC's investment in the Project was \$450.4 million, less accumulated depreciation and amortization of \$134.7 million.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,242 megawatts and is obligated to pay an average of approximately 73% of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Project's transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

E. San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC)

The City and the City of San Jose jointly own the San Jose/Santa Clara Water Pollution Control Plant (Plant). The Plant provides wastewater treatment services to the City, to the City of San Jose, and to seven other tributary agencies. The City of San Jose is the administering agency for the Plant. The San Jose/Santa Clara Clean Water Financing Authority (Authority) was created in 1981 to provide financing for capital improvements to the Plant.

In 1959, the City and the City of San Jose entered into an agreement to construct and operate the Plant. Under the terms of the agreement, the cities own an undivided interest in the Plant and share in the capital and operating costs on a pro rata basis, determined by the ratio of each city's assessed valuation to the sum of both cities assessed valuations. Such percentages are determined annually and applied to the capital and operating costs of the Plant, determined on an accrual basis. For the year ended June 30, 2006, the City's portion was approximately 16.1%, which is also its interest in the net assets of the Plant.

South Bay Water Recycling Program

The South Bay Water Reclamation Program (SBWRP), a regional water reclamation program, is part of an action plan adopted by the Regional Water Quality Control Board (RWQCB) which limits the Plant on the amount of effluent discharged into San Francisco Bay in order to prevent conversion of salt marsh and destruction of endangered species habitat. Flow limits are not included in the current (2003-2008) 5-year permit from the RWQCB.

According to the approved action plan, SBWRP was required to reclaim 21.10 million gallons per day (MGD) of plant effluent for nonpotable use by November 1, 1997, (Phase I) and an additional 24.30 MGD by December 31, 2000 (Phase 2). The action plan also requires assessment of alternatives for potable reuse, including a potable pilot plant to be coordinated with the Santa Clara Valley Water District. In addition to a habitat preservation, the project reduces the mass trace contaminants discharged to the San Francisco Bay and provides a reliable source of water to offset potable water demands.

The SBWRP distribution system includes approximately 60 miles of pipe, a four million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately \$141 million funded by the tributary agencies, grants and bond proceeds. The City's share of Phase I costs was approximately \$20.07 million.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

Proceeds from the City of San Jose 1995 Series A and B Bonds and other funds were used to pay for the City of San Jose's share of Phase I. The City contributed existing capital reserves, existing recycled water distribution system, and additional construction of system extensions. Other sources for funding of Phase I include U. S. Bureau of Reclamation grants, State of California Revolving Fund loans, \$6.45 million transferred in fiscal 1995 from the Clean Water Financing Authority to the City of San Jose Wastewater Treatment Plant Capital Fund, and cash contributions from other participating agencies.

In June 1997, the RWQCB approved the Proposed Revision to the South Bay Action Plan (the Plan), which describes the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 MGD and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I nonpotable water distribution system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated costs of \$127.5 million has been funded through a combination of State Revolving Fund loans, Equipment Replacement Reserves, Sewage Treatment Plant Connection Fees, federal grants, in-kind services and cash contributions.

F. MSR Public Power Agency

MSR is a joint power agency formed in 1980 by the Modesto Irrigation District, the City and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform other administrative and management functions of MSR. The member's income and expense sharing ratio is as follows: Modesto Irrigation District – 50%; City of Santa Clara – 35%; and City of Redding – 15%.

The City's equity in MSR's net losses exceeds its investment and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2006, the date of the latest available audited financial statements, the City's unrecognized share of member's deficit of MSR was \$73.2 million. Under the joint exercise of power agreement, which formed MSR, the City is responsible for funding up to 35% of MSR's operating cost, to the extent such funding is necessary. During the year ended June 30, 2007, the City made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in the Electric Utility Enterprise Fund expenses.

MSR's principal activity is a 28.8% ownership interest in a 507-megawatt unit of a coal-fired electricity generating plant located in New Mexico (San Juan Plant). The acquisition of such ownership interest was funded through the issuance of revenue bonds, secured by a pledge and assignment of the net electric revenues of MSR and supported by take-or-pay commitments of the equity participants. MSR is also a participant in the Southwest Transmission Project, a 500-kilovolt alternating current transmission project between Central Arizona and Southern California that provides a firm transmission path for the electric power from the San Juan Plant to the MSR members. The southwest Transmission Project was completed and placed in service in April 1996.

In accordance with an agreement with the Tucson Electric Power Company (TEP), MSR has the right to certain levels of power transmission without charge and without transmission losses between the San Juan Plant in New Mexico and Palo Verde, Arizona through 2025. These rights are being utilized in connection with the delivery of power from the San Juan Plant to the members or to third party purchasers.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

On June 1, 2005, MSR entered into a series of agreements with PPM Energy (as amended in October, 2005 and restated effective February 1, 2006) to purchase wind power energy with a nominal installed capacity of approximately 199.5 MW and an expected annual capacity factor of about 35%, as firm, shaped, and delivered to the California-Oregon Border (COB) for a twenty-year period. Deliveries of energy under this project began October 1, 2006. The participation in this project is as follows: Modesto Irrigation District – 12.5%; City of Santa Clara – 52.5%; and City of Redding – 35%.

G. Central California Power Agency No. 1 (CCPA)

The Central California Power Agency No. 1 (CCPA) was formed by the City of Santa Clara (10%), the Modesto Irrigation District (40%) and the Sacramento Municipal Utilities District (50%) in 1982 for the purpose of developing and operating Geothermal Power projects. Between 1988 and 1996, CCPA operated the Coldwater Creek Geothermal Power Plant. Operations of this project ceased in 1996 and plant demolition and site restoration activities were completed in 2001. Pursuant to the terms of the Decommissioning Plan filed with the California Energy Commission, post-restoration site monitoring activities were completed in 2005. CCPA was finally dissolved by the CCPA Commission action on June 2, 2006, pursuant to the Dissolution Agreement among the Sacramento Municipal Utilities District, the Modesto Irrigation District, and the City of Santa Clara. On September 1, 2006, the City received a distribution of \$169 thousand for the return of its share in CCPA.

H. Silicon Valley Animal Control Authority

The City is a member of the Silicon Valley Animal Control Authority, (SVACA), established in 2000 to deliver animal control and sheltering services to three communities: the cities of Santa Clara, Campbell, and Monte Sereno. SVACA provides its own field services and has an agreement with the Humane Society of Silicon Valley to provide animal shelter services comprised of a shelter facility and staffing. SVACA has purchased an existing building in Santa Clara that was converted to an animal shelter. The shelter opened in the third quarter of 2006, when the contract with the Humane Society Silicon Valley for shelter services was terminated. SVACA is governed by a Board of Directors comprised of one appointed Councilmember from each of the three member cities.

During the fiscal year ended June 30, 2007, the City of Santa Clara contributed \$1,043,806 to SVACA. The City's equity interest in SVACA was \$425,656 at June 30, 2006. Audited financial statements are available from SVACA, located at 2324 Walsh Avenue, Santa Clara, CA 95051.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

A. Plan Description

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit plan, which is a public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS offers a menu of benefit provisions and other requirements that are established by State statutes within the Public Employee Retirement law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Offices at 400 "P" Street, Sacramento, California 95814.

The City's two defined benefit pension plans (Miscellaneous Plan and Safety Plan) with CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All permanent (full-time and part-time) and eligible "as-needed" hourly City employees are required to participate in CalPERS.

B. Pension Plan Benefits

Benefits for employees in the Miscellaneous Plan and Safety Plan vest after five years of CalPERS credited service. The retirement benefits under both plans are based on the retiree's age, years of CalPERS credited service, and a benefit factor of 2.7% at 55 for miscellaneous plan members and 3% at 50 for safety plan members.

- **Miscellaneous Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (2.7% at 55), years of service, and final compensation (monthly average of member's highest 12 consecutive months' full-time equivalent monthly pay). The service retirement benefit for this group is not capped.

- **Safety Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (3% at 50), years of service, and final compensation. For Fire Safety employees, the final compensation is the monthly average of member's highest 36 consecutive months' full-time equivalent monthly pay, and for Police Safety employees, it is the monthly average of the member's highest 12 consecutive months' full-time equivalent monthly pay.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)

The service retirement benefit for the Safety Plan group is capped at 90% of final compensation.

C. Funding Policy

Permanent employees are required to make contributions to their account. For employees who are covered by formulas modified to coordinate with Social Security, a rate of zero is charged for the first \$133.33 per month. The member employees' contribution rates are set by State statute and only change with significant contract amendments. Due to a contract amendment in fiscal year 06-07, the Miscellaneous Plan Members rate increased from 7% to 8% effective December 17, 2006. The rates at the end of fiscal year 2006-07 were:

Category	Member Rates As A Percentage of Wages
Miscellaneous Plan Members	8.00%
Safety Plan:	
Fire Public Safety Members	9.00%
Police Public Safety Members	11.25%

The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the Board of Administration (the employer rate). The City's payroll for employees covered by CalPERS for fiscal year ended June 30, 2007 was \$90,935,447 (consisting of \$54,937,617 for Miscellaneous Plan employees and \$35,997,830 for Public Safety Plan employees), out of the total payroll for the City of \$104,433,512. The CalPERS employer rate and annual costs are described below.

D. Annual Pension Cost and Employer Rates

The required contribution for the year ended June 30, 2007 was determined as part of the June 30, 2004, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The Entry Age Normal Actuarial Cost Method is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method in which the City's total normal cost is expressed as a level percent of payroll. CalPERS also uses the level percentage of projected payroll method to amortize any unfunded actuarial liabilities (or excess assets) on a closed basis over the remaining amortization period. The remaining amortization

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)

period at June 30, 2004 was 30 years for the Safety Plan and 30 years for the Miscellaneous Plan.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement for the year ended June 30, 2007 include the following:

- A rate of return on the investment of present and future assets of 7.75% per year compounded annually.
- Projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for Miscellaneous Plan members, and 3.25% to 11.15% for Safety Plan members.
- Overall payroll growth of 3.25% compounded annually.
- Inflation factor of 3.00% compounded annually.

In addition to the required contribution calculated in the actuarial valuation, mid-year contract amendments for Safety and Miscellaneous Plans brought about an increase in the employer contribution rates effective December 17, 2006.

The City's actuarial required contribution rates and incurred costs paid to CalPERS for the last three fiscal years is as follows:

Fiscal Year Ending	Required Contribution Rates for Safety	Required Contribution Rates for Miscellaneous	Annual Pension Cost (APC) for Safety and Miscellaneous Employees	Percentage Of APC Contributed	Net Pension Obligation
06/30/05	25.703%	8.613%	\$ 13,172,210	100%	-
06/30/06	26.085%	12.309%	\$ 15,293,428	100%	-
06/30/07:					
July – Dec.	12.320%	25.642%	\$ 7,678,716	100%	-
Jan. – June.	18.327%	25.715%	\$ 10,013,348	100%	-

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)

E. Funded Status of Miscellaneous Plan

The Plan's actuarial value (which differs from market value) and funding progress over the most recently available three years are set forth below at their actuarial valuation date of June 30:

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded/ (Overfunded) as a % of Payroll
6/30/2003	\$265,695,242	\$226,210,767	\$39,484,475	85.1%	\$54,982,415	71.8%
6/30/2004	\$283,719,693	\$237,911,065	\$45,808,628	83.9%	\$56,026,030	81.8%
6/30/2005	\$321,174,228	\$255,154,509	\$66,019,719	79.4%	54,022,581	122.2%

Funded Status of Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded/ (Overfunded) as a % of Payroll
6/30/2003	\$347,909,118	\$286,386,614	\$61,522,504	82.3%	\$35,320,492	174.2%
6/30/2004	\$362,309,157	\$303,280,990	\$59,028,167	83.7%	\$34,052,853	173.3%
6/30/2005	\$379,340,039	\$322,968,298	\$56,371,741	85.1%	\$32,103,300	175.6%

NOTE 15 – RETIREMENT PLAN (DEFINED CONTRIBUTION PLAN)

The City's PARS (Public Agency Retirement System) Plan (Plan) is a compulsory retirement plan that qualifies under Section 401 of the Internal Revenue Code covering City employees who are not members of PERS. Under the provisions of the Plan, the City makes no contributions; however all administrative costs of the plan are funded by the City. The Plan administrator is Phase II Systems. The total assets of the Plan are held in trust for the employees and are not included in the City's assets or equity.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 16 – POST RETIREMENT BENEFITS

The City currently operates four retired employee medical-dental or medical only programs. The first program (Program "A") was established by the City Council in 1981 and applies to employees who retired prior to October 5, 1986 and have an annual family income of less than \$35,000. The second program (Program "B") was established in August 1987 and is available to all retired employees or annuitants that are enrolled in the PERS Health Insurance Program. The third program (Program "C") was established in August 2001 and it applies to employees with a minimum of ten years of service with the City and has a family income less than \$59,553 in 2006. A fourth program (Program "D") was established in December 2003 designed to reimburse retired members with at least 10 years of service up to \$269 per month for qualified expenses.

Program "A" 1986 Retiree Medical/Dental Reimbursement Program

Program "A" provides for reimbursement of medical insurance premiums for retired employees. The amount is limited to the lowest cost employee-only insurance available to active employees. Additionally, the retired employees are eligible for dental reimbursement up to \$1000 (active employees are currently eligible to receive up to \$2000 per year). As of June 30, 2007, 19 retirees participated in Program "A". Reimbursements for medical and dental benefits under this program were \$64,434 and \$8,428, respectively, for the year ended June 30, 2007.

Program "B" PEMHCA Minimum

Program "B" allows active City employees, on a bargaining unit basis, to be enrolled in the PERS Health Insurance Program. Under the City's contract with PERS, in order for the City to be in the program, all retired employees or annuitants must also have the opportunity to be enrolled in the PERS Health Insurance Program. Therefore, the City must make a minimum monthly payment of \$80.80 per retired employee or annuitant. As part of the negotiation process to develop this program, the City agreed to pay the minimum payment on behalf of the retirees or annuitants that retired prior to August 1, 1987.

The minimum payment for retirees or annuitants that retired on or after August 1, 1987 is charged against a fund that is generated from an allocation against active employees total compensation. Currently, the allocation is \$2 per month per employee. As of June 30, 2007, 457 retirees or annuitants participated in Program "B". The total of minimum monthly payments made by the City for this program on behalf of the retirees and annuitants was \$407,092 for the year ended June 30, 2007.

Program "C" 2002 Retiree Medical Reimbursement Program

Program "C" was established by City Council on August 28, 2001 to reimburse regular employees with a minimum of ten years of City service who retire from the City. The family income figures are indexed annually per CPI.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 16 – POST RETIREMENT BENEFITS (Continued)

	Maximums for 2006
Family income under \$57,706, before age 65	\$242 per month
Family income under \$57,706, after age 65	\$161 per month
Family income over \$57,706, regardless of age	\$107 per month, if funds are available

	Maximums for 2007
Family income under \$59,553, before age 65	\$250 per month
Family income under \$59,553, after age 65	\$166 per month
Family income over \$59,553, regardless of age	\$110 per month, if funds are available

The total cost for this program is capped at \$876,462 per year. The payments under this plan for the year ended June 30, 2007 were \$293,543.

Program "D" 2003 Plan and Fire Union Plan

Program "D" was established in the Memoranda of Understanding effective December 21, 2003 with each City's bargaining units. The program reimburses retired employees to age 65 with at least 10 years of service up to \$269 per month for qualifying medical expenses. After age 65, the reimbursement amount is up to \$162 per month for qualifying medical expenses. The program is funded by employer contributions. Total payments under this plan for the year ended June 30, 2007 were \$285,174.

NOTE 17 – DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In applying the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City has determined that it is not required to record the assets and associated liabilities of the plan.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (SVP)

The City's Electric Utility Department provides electricity to City residents and businesses under the name Silicon Valley Power (SVP).

A. Long-term Power Purchase Contracts

The City purchases wholesale electric power from various participants of the Western Systems Power Pool (WSPP), NCPA, MSR Public Power Agency (Note 13), PG&E, Western Area Power Administration, and other sources to supply the power requirements of the City's electric utility customers. The City actively manages the financial risks inherent in these long-term contracts, including the risks arising from the changing spot market prices that move above and below the contract prices and from contract disputes that may arise from time to time. The cost of power is included in enterprise fund materials, services and supplies expense.

B. Restructuring of the California Electric Industry

Deregulation Legislation and Direct Access

The passage of AB1890 in 1998 triggered fundamental changes in the structure of the electric industry in California. The essential feature of AB1890 was to allow individual consumers the opportunity to buy energy directly from power producers and marketers, rather than from their local investor owned utility. This was called direct access. Generally, AB1890 provided for creation of the California Power Exchange (Cal PX), which was to be a clearinghouse for energy transactions among investor owned utilities, independent generators and power marketers, who in turn would serve direct access customers. AB1890 also created the California Independent System Operator (CAISO), which was to manage the state's bulk transmission grid. In addition, investor owned utilities were encouraged to sell a substantial portion of their generating facilities to third parties, which they did. AB1890 further provided for a four-year freeze of investor-owned utility rates and recovery by investor and publicly owned utilities during this four-year period of so-called "stranded costs" arising from what were thought at the time to be uncompetitive generation investments. AB1890 also encouraged, but did not require, municipal utilities to establish direct access programs.

In 1999, the City Council adopted a direct access program that provided for a stranded cost charge, or Competition Transition Charge, subject to legal validation of the City's right to collect such a charge. That validation was secured in 2000, and the City's direct access program was to commence in April 2001.

However, in 2000 and 2001, the price of electricity at the Cal PX became extremely high, and investor-owned utilities were unable to pay for the energy that they needed from the Cal PX. These conditions caused the passage of AB1X by the California legislature, pursuant to which investor owned utilities' energy procurement function was assigned to the California Department of Water Resources. AB1X also suspended direct access for investor-owned utilities, essentially until 2013. Based on this development, the City has deferred implementation of its direct access program.

Other Effects of Restructuring

The restructuring of the electric industry has created a substantially changed market for electricity. Compared to the prior market structure, this market has exhibited increased uncertainty and volatility. In anticipation of this restructured market, the City developed a strategic plan to guide its electric utility's

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (SVP) (Continued)

transition efforts into the new environment. As part of the Strategic Plan, the Cost Reduction Account was established to protect ratepayers from rate volatility in future years due to revenue shortfalls or unexpected costs. As of June 30, 2007, the balance of the Cost Reduction Account is \$254.46 million. The strategic plan is a multi-pronged strategic initiative to address electric generation, transmission and distribution business issues given both the initially anticipated operating environment, and the operating environment that has actually evolved. The City's management believes that the strategic plan has been an effective tool for the electric utility as it has transitioned into the new environment.

Energy Wholesale Trading and Risk Management

SVP participates in the California deregulated wholesale gas and power market. By so doing, SVP engages in the trading of commodity forward contracts (gas and electric energy contracts). Activities during the fiscal year were substantially considered hedging transactions and, as such, have been accounted for using the settlement method of accounting. Accordingly, related gross purchases and sales totaling \$197.08 million and \$204.72 million, respectively, for fiscal year ended June 30, 2007, have been separately reported on the statement of revenues, expenses and changes in net assets. Associated receivables representing delivered but unbilled energy, and corresponding payable amounts totaling \$28.42 million and \$31.20 million, respectively, have been reported in the proprietary funds statement of net assets.

The trading activity exposes SVP to various risks including market, credit and operational risks. Active and effective management of these risks associated with the power trading activity is critical to its continued success and contribution to the entire utility. A Risk Management Committee, separate from the units that create the risk exposures, overseen by a Risk Oversight Committee that reports ultimately to the City Council, administers and monitors compliance with the risk policies and procedures on a regular basis. The City and SVP believe that it has the resource commitment, effective policies and procedures, and is continuing to improve the control structure and oversight for evaluating and controlling the market and credit risks to which it is exposed.

Credit Arrangements

The City and SVP have trading business support deposits and credit arrangements including an \$85 million collateralized credit facility with Bank of America. This letter of credit facility with an expiration date of March 1, 2009 is available to the trading operation as a credit enhancement facility, as necessary. As of June 30, 2007, there was no need to renew the letter of credit (\$200 thousand) issued to a third party out of the total available standby letter of credit of \$85 million because SVP has qualified for a significant unsecured credit line.

The City of Santa Clara electric utility maintains credit policies, procedures, and systems that help mitigate credit risk and minimize overall credit risk exposure. The policies include transacting only with investment grade counterparties, and evaluation of potential counterparties' financial condition and an assignment of credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. Additionally, SVP is a signatory to the WSPG netting agreement supplement and otherwise, enters into master netting arrangements whenever possible and, where appropriate, obtains collateral prior to trade execution. Master netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (SVP) (Continued)

Provision for Disputed SCS charges

In November 1999, PG&E filed with the Federal Energy Regulatory Commission (FERC) its Schedule of Coordination Services (SCS) Tariff, alleging that PG&E was entitled to collect from Santa Clara and other municipal users certain costs imposed by the CAISO on PG&E for the period April 1998 to August 2002. On June 1, 2004, PG&E began billing Santa Clara for these costs. These costs, which were billed over a twelve-month period, accumulated to approximately \$24.0 million, including interest. SVP, in accordance with the SCS Tariff, made the twelve monthly payments into an escrow account.

On May 17, 2005, Santa Clara and PG&E filed with FERC, a settlement in the amount of \$10 million, which, however, is ultimately conditional on the outcome of PG&E's appeal of FERC's Opinions Nos. 458 and 458-A, which prohibited PG&E from seeking recovery of its SCS costs from all of its transmission customers, before the District Court of Appeal for the District of Columbia (D.C. Circuit Court). On May 24, 2005, the City Council approved the settlement. On June 24, 2005, FERC issued an order accepting the settlement.

On July 12, 2005, the D.C. Circuit Court issued an order vacated FERC's Opinions 458 and 458-A and remanded the case to FERC "for further proceedings consistent with the [California Independent System Operator] tariff." Under the terms of the settlement, if FERC issues a new order granting PG&E's motion to assess the SCS charges upon its customers, Santa Clara is entitled to a full refund of the \$10 million settlement; however, if on remand FERC finds that some portion of the SCS charges are yet due from Santa Clara under the SCS tariff, then Santa Clara will not recover the \$10 million amount of the settlement. On August 5, 2005, in accordance with the settlement agreement, SVP submitted the \$10 million payment to PG&E and closed the escrow account. The FERC subsequently agreed in its order dated December 20, 2005, that PG&E can recover the disputed SCS charges from its customers. Accordingly, in June 2006, PG&E refunded to SVP the subject \$10 million payment, plus interest.

C. 2007 Rate Increases

In December 2005, the City Council adopted a 5% rate increase effective January 1, 2006 and an additional 5% increase effective July 1, 2006. The primary reasons for the increase were the increased cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Area Power Administration. Rates remain unchanged for the calendar year 2007. City staff continues to monitor costs and revenues to assess future rate increase recommendations.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 19 – NET ASSETS/FUND EQUITY

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include investments in joint ventures, developer fees received for use on capital projects, debt service requirements, redevelopment funds restricted to low and moderate-income purposes.

Unrestricted describes the portion of Net Assets which is not restricted as to use.

B. Fund Balances/Net Assets, Reserves and Designations

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or retained earnings that has been encumbered or is legally segregated for a specific future use. A reserved retained earnings represents contractual obligations. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate the City Council's plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and the appropriations might not ever be legally authorized or result in expenditures.

C. Net Asset/Fund Balance Deficits

The funds listed on the following page had an accumulated deficit as of June 30, 2007:

<u>Fund Name</u>	<u>Accumulated Deficit</u>
Enterprise Funds:	
Solid Waste	\$ 2,873,750
Cemetery	\$ 262,110
Internal Service Funds:	
Workers' Compensation Insurance Claims	\$15,098,575

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 19 – NET ASSETS/FUND EQUITY (Continued)

The Solid Waste Enterprise Fund accumulated deficit is the result of the unfunded post closure liability associated with the closure of the City's Landfill. It is anticipated that future earnings and operating transfers will be sufficient to meet the City's post closure obligation. The City's long term plans include construction of additional facilities that will help bring the Cemetery Enterprise Fund closer towards recovery. The Workers Compensation Insurance Claims' Internal Service Fund accumulated deficit is expected to be offset by future charges to the General Fund and the proprietary funds.

NOTE 20 – RISK MANAGEMENT

Normal Course of Business

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in its Internal Service Funds. Claims, expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported. As of June 30, 2007, the amount of these liabilities was \$18,372,071.

This liability is the City's best estimate based upon available information which is included in accrued liabilities.

Changes in the reported liability since June 30, 2007, resulted from the following:

	<u>Special Liability</u>	<u>Workers'</u> <u>Compensation</u>	<u>Total</u>
Liability as of June 30, 2005 (all current)	\$ 282,531	\$ 9,412,749	\$ 9,695,280
Claims and changes in estimates during fiscal 2005	935,313	7,515,677	8,450,990
Claim payments	<u>(772,266)</u>	<u>(3,482,994)</u>	<u>(4,255,260)</u>
Liability as of June 30, 2006 (all current)	445,578	13,445,432	13,891,010
Claims and changes in estimates during fiscal 2006	1,602,766	7,146,368	8,749,134
Claim payments	<u>(1,217,481)</u>	<u>(3,050,592)</u>	<u>(4,268,073)</u>
Liability as of June 30, 2007 (all current)	<u>\$ 830,863</u>	<u>\$ 17,541,208</u>	<u>\$ 18,372,071</u>

With respect to the Special Liability accrual of \$830,863, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2007. The City Attorney has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or ranges of potential loss to the City. As a result of such review, the City Attorney has categorized the various claims and lawsuits as "probable," "reasonably possible," and "remote" loss contingencies, as defined in SFAS No. 5, *Accounting for Contingencies*.

CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2007

NOTE 20 - RISK MANAGEMENT (Continued)

The City Attorney has determined that the City's probable loss contingencies, which are accrued for as the estimated liability for claims and lawsuits as of June 30, 2007, are approximately \$830,863. The final outcome of claims and lawsuits, which have been categorized as reasonably possible loss contingencies, is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying basic financial statements relative to the potential outcome of such claims and lawsuits. However, the ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying basic financial statements.

NOTE 21 – COMMITMENTS AND CONTINGENCIES

The City has future commitments under constructions projects as detailed in Note 10A, electricity purchase contracts as discussed in Note 18A, and is contingently liable under joint venture agreements discussed in note 13B.

The City also participates in several federal and state grant programs. In accordance with the provisions of the federal Single Audit Act, Office of Management and Budget Circular A-133, and applicable State requirements, the City's independent certified public accountants have audited these programs. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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Required Supplementary Information

<p style="text-align: center;">CITY OF SANTA CLARA NOTES TO REQUIRED SUPPLEMENTARY INFORMATION</p>
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1 - BUDGETS AND BUDGETARY ACCOUNTING

The results of operations are presented in the budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis actual are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the liability is incurred.
- Expenditures of prior year encumbrances are recognized on the GAAP basis in the current year, while on the budgetary basis prior year encumbrances were recognized in the prior year.
- Accrued liabilities and compensated absences are recognized on the GAAP basis, while the budgetary basis does not recognize accrued liabilities.
- Revenues considered susceptible to accrual on the GAAP basis are not recognized on the budgetary basis until received.
- Increases to certain GAAP basis advances to other funds are treated as expenditures for budgetary basis financial statements.
- Component units and proprietary funds included in the City's basic financial statements, for which no annual budgets are prepared, are excluded from the budgetary basis financial statements.

**CITY OF SANTA CLARA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
Sales	\$ 40,110,000	\$ 40,110,000	\$ 43,217,143	\$ 3,107,143
Ad valorem	24,164,651	24,164,651	25,468,193	1,303,542
Transient occupancy	9,450,000	9,450,000	10,306,555	856,555
Other	3,812,000	3,812,000	4,340,613	528,613
Licenses, permits, fines and penalties	4,636,000	4,645,500	5,123,062	477,562
Intergovernmental	1,564,374	1,736,555	2,064,539	327,984
Charges for services	16,987,500	16,990,614	18,796,584	1,805,970
Contributions in-lieu of taxes	13,862,342	13,862,342	14,722,138	859,796
Interest and rents	7,951,000	7,973,294	8,203,525	230,231
Other	228,000	229,365	597,265	367,900
Total Revenues	<u>122,765,867</u>	<u>122,974,321</u>	<u>132,839,617</u>	<u>9,865,296</u>
EXPENDITURES				
Current:				
General government:				
General Administration:				
Salary & benefits	4,003,396	3,468,833	3,407,668	61,165
Material, service & supplies	9,842,543	9,849,845	9,650,323	199,522
Internal service fund charges	100,933	100,933	100,933	-
Capital outlay	1,735	1,935	1,862	73
Total General Administration	<u>13,948,607</u>	<u>13,421,546</u>	<u>13,160,786</u>	<u>260,760</u>
City Clerk:				
Salary & benefits	462,068	532,411	532,063	348
Material, service & supplies	327,659	271,659	226,330	45,329
Internal service fund charges	2,338	2,338	2,338	-
Total City Clerk	<u>792,065</u>	<u>806,408</u>	<u>760,731</u>	<u>45,677</u>
City Attorney:				
Salary & benefits	994,200	1,059,596	1,044,035	15,561
Material, service & supplies	67,405	208,556	203,603	4,953
Internal service fund charges	5,445	5,445	5,445	-
Total City Attorney	<u>1,067,050</u>	<u>1,273,597</u>	<u>1,253,083</u>	<u>20,514</u>
Human Resources:				
Salary & benefits	1,573,427	1,581,667	1,483,188	98,479
Material, service & supplies	223,930	261,930	261,496	434
Internal service fund charges	8,255	8,255	8,255	-
Total Human Resources	<u>1,805,612</u>	<u>1,851,852</u>	<u>1,752,939</u>	<u>98,913</u>

**CITY OF SANTA CLARA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Finance:				
Salary & benefits	5,163,625	5,296,388	5,296,353	35
Material, service & supplies	931,376	919,776	919,756	20
Internal service fund charges	88,579	88,579	88,579	-
Total Finance	<u>6,183,580</u>	<u>6,304,743</u>	<u>6,304,688</u>	<u>55</u>
Total General Government	<u>23,796,914</u>	<u>23,658,146</u>	<u>23,232,227</u>	<u>425,919</u>
Public Works:				
Salary & benefits	10,961,243	11,056,601	11,023,478	33,123
Material, service & supplies	2,097,841	2,156,868	2,147,758	9,110
Internal service fund charges	949,093	949,093	949,093	-
Capital outlay	2,600	2,600	-	2,600
Total Public Works	<u>14,010,777</u>	<u>14,165,162</u>	<u>14,120,329</u>	<u>44,833</u>
Parks and Recreation:				
Salary & benefits	8,447,368	8,496,604	8,496,585	19
Material, service & supplies	1,658,569	2,210,147	2,209,593	554
Internal service fund charges	435,691	435,691	435,691	-
Total Parks and Recreation	<u>10,541,628</u>	<u>11,142,442</u>	<u>11,141,869</u>	<u>573</u>
Public Safety:				
Police:				
Salary & benefits	34,498,266	34,147,510	32,903,371	1,244,139
Material, service & supplies	1,779,092	1,898,141	1,845,743	52,398
Internal service fund charges	2,181,769	2,181,769	2,181,769	-
Capital outlay	-	2,500	-	2,500
Total Police	<u>38,459,127</u>	<u>38,229,920</u>	<u>36,930,883</u>	<u>1,299,037</u>
Fire:				
Salary & benefits	28,483,812	28,314,768	27,765,616	549,152
Material, service & supplies	611,295	641,133	601,457	39,676
Internal service fund charges	1,440,442	1,440,442	1,440,442	-
Capital outlay	9,437	108,172	66,082	42,090
Total Fire	<u>30,544,986</u>	<u>30,504,515</u>	<u>29,873,597</u>	<u>630,918</u>

**CITY OF SANTA CLARA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Planning & Inspection:				
Salary & benefits	4,624,216	4,519,232	4,406,387	112,845
Material, service & supplies	493,639	628,328	628,190	138
Internal service fund charges	80,074	80,074	80,074	-
Total Planning & Inspection	5,197,929	5,227,634	5,114,651	112,983
Total Public Safety	74,202,042	73,962,069	71,919,131	2,042,938
Library:				
Salary & benefits	5,144,696	5,150,639	5,041,591	109,048
Material, service & supplies	1,131,765	2,413,084	1,493,943	919,141
Internal service fund charges	53,300	53,300	53,300	-
Total Library	6,329,761	7,617,023	6,588,834	1,028,189
Total Expenditures	128,881,122	130,544,842	127,002,390	3,542,452
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,115,255)	(7,570,521)	5,837,227	13,407,748
OTHER FINANCING SOURCES (USES)				
Transfers in	13,804,040	13,928,242	13,596,318	(331,924)
Transfers (out)	(11,125,666)	(12,370,339)	(12,370,339)	-
Sale of capital assets	-	-	596,129	596,129
Total Other Financing Sources (Uses)	2,678,374	1,557,903	1,822,108	264,205
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(3,436,881)	(6,012,618)	7,659,335	<u>\$13,671,953</u>
ADJUSTMENTS TO BUDGETARY BASIS:				
Expenditures of prior year encumbrances recognized on the GAAP basis			2,736,666	
Current year encumbrances recognized on the budgetary basis			(2,336,369)	
Net change in receivables recognized on the GAAP basis			1,231,126	
Net change in accrued liabilities recognized on the GAAP basis			370,545	
Fund balance - July 1	67,457,957	67,457,957	67,457,957	
Fund balance - June 30	<u>\$ 64,021,076</u>	<u>\$ 61,445,339</u>	<u>\$ 77,119,260</u>	

Non-Major Funds Statements

SPECIAL REVENUE FUNDS

GAS TAX

The fund accounts for revenues and expenditures received from the State under Street and Highways Codes Sections 2105 (Gas Tax 2105), 2106 (Collier-Unruh) and 2107 (Special Gas Tax). The allocations must be spent for street maintenance or construction and a limited amount for engineering.

COMMUNITY ACTIVITIES

This fund accounts for fees and expenses related to certain special recreation activity programs for adults (including seniors), and teens.

HUD PROGRAMS

This fund accounts for grant funds received from other governmental agencies for the purpose of developing viable urban communities.

MAINTENANCE

This fund accountst for the maintenance of two Parking Districts located near the City's Convention Center and the downtown area. Funds are received by means of a Special Benefit Assessment levied against the property owners in the respective districts.

OPERATING GRANTS FUND

This fund accounts for grant funds received from other governmental agencies for various operating activities.

DEBT SERVICE FUNDS

SPECIAL ASSESSMENTS

This fund accumulates monies for payment of Special Assessment bonds which are financed by assessments placed on the County tax roll.

PUBLIC FACILITIES FINANCING CORPORATION

This fund accumulates monies for the repayment of Certificates of Participation, which are financed by lease payments made by the City's General Fund to the PFFC for use of the Police Administration Building site.

GENERAL GOVERNMENT

This fund accumulates monies for the payment of General Government long-term obligations, which are financed by various General Fund revenues.

<p>CITY OF SANTA CLARA NON-MAJOR GOVERNMENTAL FUNDS (Continued)</p>

CAPITAL PROJECTS FUNDS

PARKS AND RECREATION FACILITIES

This fund was established to account for revenues, contributions and reimbursements received and costs incurred in connection with the acquisition and construction of the City Parks.

STREETS AND HIGHWAYS IMPROVEMENT

This fund is used to account for revenues and expenditures related to road construction and traffic improvements.

STORM DRAIN IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modification of the City's storm drainage system.

FIRE DEPARTMENT IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modification of City fire stations.

LIBRARY DEPARTMENT IMPROVEMENTS

This fund is used to account for revenues and expenditures related to the construction or modification of the City library facilities.

PUBLIC FACILITEIS

This fund is used to account for revenues and expenditures related to the construction, acquisition or modification of public improvements not accounted for in another Capital Projecst Fund.

STREET BEAUTIFICATION

This fund is used to account for revenues and expenditures related to the landscaping of City streets.

SPECIAL ASSESSMENTS

Included Special Assessment District funds used to finance public improvements deemed to benefit the properties against which special assessments are made.

CITY OF SANTA CLARA NON-MAJOR GOVERNMENTAL FUNDS (Continued)

PERMANENT FUNDS

PERPETUAL CARE AND ENDOWMENT FUND

These funds account for cemetery maintenance funded by plot owners.

CHARITABLE TRUST FUND

This fund accounts for the various gifts, donations and bequests received by the City.

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

	<u>SPECIAL REVENUE FUNDS</u>			
	<u>Gas Tax</u>	<u>Community Activities</u>	<u>HUD Programs</u>	<u>Maintenance</u>
ASSETS				
Cash and investments:				
Pooled cash and investments	\$ 7,566,512	\$ 730,059	\$ 345,986	\$ 378,519
Investments with fiscal agent - current	-	-	-	-
Cash designated for construction	-	-	-	111,122
Receivables (net of allowance for uncollectibles):				
Accounts	-	696	-	-
Interest	-	-	-	-
Loans	-	-	11,715,671	-
Special assessments	-	-	-	-
Intergovernmental	191,780	-	2,675,358	-
Due from other funds	-	-	-	12,330
Investments with fiscal agent - noncurrent	-	-	-	-
Total Assets	<u>\$ 7,758,292</u>	<u>\$ 730,755</u>	<u>\$ 14,737,015</u>	<u>\$ 501,971</u>
LIABILITIES				
Accrued liabilities	\$ 279,250	\$ 5,863	\$ 69,742	\$ 95,367
Due to other funds	-	-	112,854	-
Deferred revenue	-	30,492	14,187,979	-
Total Liabilities	<u>279,250</u>	<u>36,355</u>	<u>14,370,575</u>	<u>95,367</u>
FUND EQUITY				
Reserved for encumbrances	-	-	731,623	-
Reserved for debt service	-	-	-	-
Reserved for special programs	191,780	694,400	-	295,482
Unreserved:				
Designated for capital projects				
Reported in:				
Special revenue funds	7,287,262	-	-	111,122
Capital projects funds	-	-	-	-
Undesignated				
Reported in:				
Special revenue funds	-	-	(365,183)	-
Total Fund Balances	<u>7,479,042</u>	<u>694,400</u>	<u>366,440</u>	<u>406,604</u>
Total Liabilities and Fund Balances	<u>\$ 7,758,292</u>	<u>\$ 730,755</u>	<u>\$ 14,737,015</u>	<u>\$ 501,971</u>

DEBT SERVICE FUNDS				CAPITAL PROJECTS FUNDS		
Operating Grants Fund	Special Assessment	Public Facilities Financing Corp.	General Government	Parks and Recreation Facilities	Streets and Highways Improvement	Storm Drain Improvement
\$ 120,901	\$ 2,874,736	\$ 345,851	\$ 743,423	\$ 416,140	\$ 13,520,764	\$ 2,681,409
-	-	922	2,985,911	-	-	-
-	-	-	-	-	3,375,783	-
-	-	-	-	36,984	-	5,347
-	-	38,729	68,178	-	-	-
-	-	-	-	-	-	-
-	4,110,000	-	-	-	-	-
70,725	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	3,229,410	679,951	-	-	-
<u>\$ 191,626</u>	<u>\$ 6,984,736</u>	<u>\$ 3,614,912</u>	<u>\$ 4,477,463</u>	<u>\$ 453,124</u>	<u>\$ 16,896,547</u>	<u>\$ 2,686,756</u>
\$ 42,300	\$ -	\$ -	\$ -	\$ 10,768	\$ 429,763	\$ 7,405
-	-	-	-	-	-	-
-	4,110,000	-	-	-	-	-
<u>42,300</u>	<u>4,110,000</u>	<u>-</u>	<u>-</u>	<u>10,768</u>	<u>429,763</u>	<u>7,405</u>
32	-	-	-	78,788	160,438	-
-	2,874,736	3,614,912	4,477,463	-	-	-
149,294	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	363,568	16,306,346	2,679,351
-	-	-	-	-	-	-
<u>149,326</u>	<u>2,874,736</u>	<u>3,614,912</u>	<u>4,477,463</u>	<u>442,356</u>	<u>16,466,784</u>	<u>2,679,351</u>
<u>\$ 191,626</u>	<u>\$ 6,984,736</u>	<u>\$ 3,614,912</u>	<u>\$ 4,477,463</u>	<u>\$ 453,124</u>	<u>\$ 16,896,547</u>	<u>\$ 2,686,756</u>

(Continued)

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

CAPITAL PROJECTS FUNDS

	<u>Fire Department Improvement</u>	<u>Library Department Improvements</u>	<u>Public Facilities</u>	<u>Street Beautification</u>
ASSETS				
Cash and investments:				
Pooled cash and investments	\$ 3,506,090	\$ 1,608,295	\$14,173,465	\$ 139,579
Investments with fiscal agent - current	-	-	-	-
Cash designated for construction	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	-	-	-	670
Interest	-	-	-	-
Loans	-	-	-	-
Special assessments	-	-	-	-
Intergovernmental	-	-	-	-
Due from other funds	-	-	-	-
Investments with fiscal agent - noncurrent	-	-	-	-
Total Assets	<u><u>\$ 3,506,090</u></u>	<u><u>\$ 1,608,295</u></u>	<u><u>\$14,173,465</u></u>	<u><u>\$ 140,249</u></u>
LIABILITIES				
Accrued liabilities	\$ 185,470	\$ 2,568	\$ 605,485	\$ 53,132
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
Total Liabilities	<u>185,470</u>	<u>2,568</u>	<u>605,485</u>	<u>53,132</u>
FUND EQUITY				
Reserved for encumbrances	2,913,666	-	531,468	-
Reserved for debt service	-	-	-	-
Reserved for special programs	-	-	-	-
Unreserved:				
Designated for capital projects				
Reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	406,954	1,605,727	13,036,512	87,117
Undesignated				
Reported in:				
Special revenue funds	-	-	-	-
Total Fund Balances	<u>3,320,620</u>	<u>1,605,727</u>	<u>13,567,980</u>	<u>87,117</u>
Total Liabilities and Fund Balances	<u><u>\$ 3,506,090</u></u>	<u><u>\$ 1,608,295</u></u>	<u><u>\$14,173,465</u></u>	<u><u>\$ 140,249</u></u>

PERMANENT FUNDS				
Special Assessments	Perpetual Care	Endowment Fund	Charitable Trust	Total Nonmajor Governmental Funds
\$ 960,210	\$ 38,244	\$ 930,250	\$ 439,386	\$ 51,519,819
-	-	-	-	2,986,833
-	-	-	-	3,486,905
-	-	-	-	43,697
-	-	-	28,393	135,300
-	-	-	-	11,715,671
-	-	-	-	4,110,000
-	-	-	-	2,937,863
-	-	-	-	12,330
-	-	-	2,868,829	6,778,190
<u>\$ 960,210</u>	<u>\$ 38,244</u>	<u>\$ 930,250</u>	<u>\$ 3,336,608</u>	<u>\$ 83,726,608</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,787,113
-	-	-	-	112,854
-	-	-	-	18,328,471
-	-	-	-	20,228,438
-	-	-	-	4,416,015
-	-	-	-	10,967,111
-	38,244	930,250	3,336,608	5,636,058
-	-	-	-	7,398,384
960,210	-	-	-	35,445,785
-	-	-	-	(365,183)
<u>960,210</u>	<u>38,244</u>	<u>930,250</u>	<u>3,336,608</u>	<u>63,498,170</u>
<u>\$ 960,210</u>	<u>\$ 38,244</u>	<u>\$ 930,250</u>	<u>\$ 3,336,608</u>	<u>\$ 83,726,608</u>

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007**

	SPECIAL REVENUE FUNDS			
	Gas Tax	Community Activities	HUD Programs	Maintenance
REVENUES				
Taxes:				
Other	\$ -	\$ -	\$ -	\$ -
Intergovernmental	3,035,432	-	1,704,258	-
Charges for services	-	554,074	-	678,799
Interest and rents	312,827	6,242	-	27,728
Decrease of Pooled Investments due to Market Value	-	-	-	-
Other	715	93,139	409,949	-
Total Revenues	3,348,974	653,455	2,114,207	706,527
EXPENDITURES				
Current				
General Administration	-	-	806,683	-
Public Works	552,061	727,480	-	1,344,888
Parks and Recreation	-	-	-	-
Public Safety:				
Police	-	-	-	-
Fire	-	-	-	-
Library	-	-	-	-
Capital outlay	2,923,411	12,698	611,672	-
Debt service				
Principal payments	-	-	-	-
Interest and fiscal fees	-	-	-	-
Bond cost expense	-	-	-	-
Total Expenditures	3,475,472	740,178	1,418,355	1,344,888
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(126,498)	(86,723)	695,852	(638,361)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	657,525
Transfers (out)	(745,300)	(10,366)	(453,695)	-
Total Other Financing Sources (Uses)	(745,300)	(10,366)	(453,695)	657,525
Net change in fund balances	(871,798)	(97,089)	242,157	19,164
Fund balances at the beginning of period	8,350,840	791,489	124,283	387,440
FUND BALANCES AT END OF PERIOD	\$ 7,479,042	\$ 694,400	\$ 366,440	\$ 406,604

DEBT SERVICE FUNDS				CAPITAL PROJECTS FUNDS		
Operating Grants Fund	Special Assessment	Public Facilities Financing Corp.	General Government	Parks and Recreation Facilities	Streets and Highways Improvement	Storm Drain Improvement
\$ -	\$ 1,161,013	\$ -	\$ -	\$ -	\$ -	\$ -
1,141,707	-	-	-	1,232,608	340,427	-
76,697	-	-	-	-	167,097	128,276
13	55,235	130,763	172,722	-	587,309	-
-	-	-	-	-	-	-
-	-	-	336,392	15,329	76,672	94,026
1,218,417	1,216,248	130,763	509,114	1,247,937	1,171,505	222,302
4,475	-	-	-	-	-	-
84,813	-	-	-	264,467	155,134	128,800
450,333	-	-	-	-	-	-
151,034	-	-	-	-	-	-
229,473	-	-	-	-	-	-
720,024	-	-	-	3,344,141	1,802,884	10,569
-	860,000	1,025,000	2,470,000	-	-	-
-	277,083	1,812,349	1,030,698	-	-	-
-	805	4,816	4,220	-	-	-
1,640,152	1,137,888	2,842,165	3,504,918	3,608,608	1,958,018	139,369
(421,735)	78,360	(2,711,402)	(2,995,804)	(2,360,671)	(786,513)	82,933
281,831	-	2,771,209	3,128,472	230,000	50,000	-
-	-	-	-	-	-	-
281,831	-	2,771,209	3,128,472	230,000	50,000	-
(139,904)	78,360	59,807	132,668	(2,130,671)	(736,513)	82,933
289,230	2,796,376	3,555,105	4,344,795	2,573,027	17,203,297	2,596,418
\$ 149,326	\$ 2,874,736	\$ 3,614,912	\$ 4,477,463	\$ 442,356	\$ 16,466,784	\$ 2,679,351

**CITY OF SANTA CLARA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007**

CAPITAL PROJECTS FUNDS

	<u>Fire Department Improvement</u>	<u>Library Department Improvements</u>	<u>Public Buildings</u>	<u>Street Beautification</u>
REVENUES				
Taxes:				
Other	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	215,601	-
Charges for services	-	-	-	-
Interest and rents	-	-	-	-
Decrease of Pooled Investments due to Market Value	-	-	-	-
Other	4,371	-	238,087	-
	<u>4,371</u>	<u>-</u>	<u>238,087</u>	<u>-</u>
Total Revenues	<u>4,371</u>	<u>-</u>	<u>453,688</u>	<u>-</u>
EXPENDITURES				
Current				
General Administration	-	-	1,526,031	-
Public Works	-	-	-	16,358
Parks and Recreation	-	-	-	-
Public Safety:				
Police	-	-	-	-
Fire	115,654	-	-	-
Library	-	73,300	-	-
Capital outlay	162,977	60,986	1,771,918	86,949
Debt service				
Principal payments	-	-	-	-
Interest and fiscal fees	-	-	-	-
Bond cost expense	-	-	-	-
Total Expenditures	<u>278,631</u>	<u>134,286</u>	<u>3,297,949</u>	<u>103,307</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(274,260)</u>	<u>(134,286)</u>	<u>(2,844,261)</u>	<u>(103,307)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	74,200	25,000	4,823,101	60,000
Transfers (out)	-	-	(313)	-
	<u>74,200</u>	<u>25,000</u>	<u>4,822,788</u>	<u>60,000</u>
Total Other Financing Sources (Uses)	<u>74,200</u>	<u>25,000</u>	<u>4,822,788</u>	<u>60,000</u>
Net change in fund balances	(200,060)	(109,286)	1,978,527	(43,307)
Fund balances at the beginning of period	<u>3,520,680</u>	<u>1,715,013</u>	<u>11,589,453</u>	<u>130,424</u>
FUND BALANCES AT END OF PERIOD	<u><u>\$ 3,320,620</u></u>	<u><u>\$ 1,605,727</u></u>	<u><u>\$ 13,567,980</u></u>	<u><u>\$ 87,117</u></u>

	PERMANENT FUNDS			Total Nonmajor Governmental Funds
	Special Assessment	Perpetual Care	Endowment Fund	Charitable Trust
\$ -	\$ -	\$ -	\$ -	\$ 1,161,013
-	-	-	-	7,670,033
-	-	28,557	-	1,633,500
21,246	1,625	39,012	164,350	1,519,072
-	-	-	136,839	136,839
-	-	-	-	1,268,680
21,246	1,625	67,569	301,189	13,389,137
-	-	-	111,297	2,448,486
-	-	-	-	2,924,721
-	-	-	-	349,280
-	-	-	-	-
-	-	-	-	450,333
-	-	-	-	266,688
-	-	-	-	302,773
-	-	-	-	11,508,229
-	-	-	-	4,355,000
-	-	-	-	3,120,130
-	-	-	-	9,841
-	-	-	111,297	25,735,481
21,246	1,625	67,569	189,892	(12,346,344)
-	-	-	-	12,101,338
-	(1,625)	(39,012)	-	(1,250,311)
-	(1,625)	(39,012)	-	10,851,027
21,246	-	28,557	189,892	(1,495,317)
938,964	38,244	901,693	3,146,716	64,993,487
\$ 960,210	\$ 38,244	\$ 930,250	\$ 3,336,608	\$ 63,498,170

**CITY OF SANTA CLARA
SPECIAL REVENUE MAINTENANCE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2007**

	Budget	Actual Amount Budgetary Basis	Variance Positive (Negative)
REVENUES			
Charges for services	\$ 678,679	\$ 678,799	\$ 120
Interest and rents	4,262	27,728	23,466
Total Revenues	682,941	706,527	23,586
EXPENDITURES			
Current:			
Public works			
Salary & benefits	89,928	85,472	4,456
Material, service & supplies	1,295,251	1,233,184	62,067
Internal service fund charges	51,875	47,168	4,707
Total Public Works	1,437,054	1,365,824	71,230
Total Expenditures	1,437,054	1,365,824	71,230
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(754,113)	(659,297)	94,816
OTHER FINANCING SOURCES (USES)			
Transfers in	657,525	657,525	-
Total Other Financing Sources (Uses)	657,525	657,525	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(96,588)	(1,772)	\$ 94,816
ADJUSTMENTS TO BUDGETARY BASIS:			
Expenditures of prior year encumbrances recognized on the GAAP basis		(45)	
Current year encumbrances recognized on the budgetary basis		65,706	
Net change in accrued liabilities recognized on the GAAP basis		(44,725)	
Fund balance - July 1	387,440	387,440	
Fund balance - June 30	\$ 290,852	\$ 406,604	

CITY OF SANTA CLARA INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues or expenses of each internal service fund are eliminated by netting them against the operations of the other City departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, internal service funds are still presented separately in the Fund financial statements, including the funds below.

AUTOMOTIVE SERVICES

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue for this fund is rental fees charged to the various departments.

TECHNICAL EQUIPMENT SERVICES

This fund accounts for the maintenance and replacement of communication and computer equipment used by City departments. The source of revenue for this fund is rental fees charged to the various departments.

SPECIAL LIABILITY INSURANCE CLAIMS

This fund was established to account for the cost of claims and administrative costs for the City's self-insured general liability program.

WORKERS' COMPENSATION INSURANCE CLAIMS

This fund is used to account for the cost of claims for service connected with injuries and illnesses sustained by members of the City's work force.

**CITY OF SANTA CLARA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF NET ASSETS
JUNE 30, 2007**

	Automotive Services	Technical Equipment Services	Special Liability Insurance Claims	Workers' Compensation Insurance Claims	TOTAL
ASSETS					
Current assets:					
Pooled cash and investments	\$ 6,007,767	\$ 212,405	\$ 5,087,776	\$ 2,209,536	\$ 13,517,484
Investments with fiscal agent	-	-	19,976,851	-	19,976,851
Receivables (net of allowance for uncollectibles):					
Accounts	2,871	-	-	263,096	265,967
Interest	-	-	156,746	-	156,746
Due from other funds	259,779	82,325	-	-	342,104
Materials, supplies and prepaids	321,010	-	-	-	321,010
Total current assets	6,591,427	294,730	25,221,373	2,472,632	34,580,162
Noncurrent assets:					
Capital assets:					
Equipment	18,525,432	2,537,295	-	-	21,062,727
Accumulated depreciation	14,005,558	2,064,140	-	-	16,069,698
	4,519,874	473,155	-	-	4,993,029
Total noncurrent assets	4,519,874	473,155	-	-	4,993,029
Total assets	11,111,301	767,885	25,221,373	2,472,632	39,573,191
LIABILITIES					
Current liabilities:					
Accrued liabilities	178,784	42,284	873,906	17,571,207	18,666,181
Accrued compensated absences	13,128	3,774	-	-	16,902
Due to other funds	2,862,471	290,154	-	-	3,152,625
Total current liabilities	3,054,383	336,212	873,906	17,571,207	21,835,708
Noncurrent liabilities:					
Long-term Comp Absences	81,205	35,459	-	-	116,664
Long-term Obligations	-	-	20,000,000	-	20,000,000
Total noncurrent liabilities	81,205	35,459	20,000,000	-	20,116,664
Total liabilities	3,135,588	371,671	20,873,906	17,571,207	41,952,372
NET ASSETS					
Invested in capital assets, net of related debt	4,519,874	473,155	-	-	4,993,029
Restricted for contractual obligations	390,287	-	-	-	390,287
Unreserved	3,065,552	(76,941)	4,347,467	(15,098,575)	(7,762,497)
Total net assets	\$ 7,975,713	\$ 396,214	\$ 4,347,467	\$ (15,098,575)	\$ (2,379,181)

**CITY OF SANTA CLARA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	Automotive Services	Technical Equipment Services	Special Liability Insurance Claims	Workers' Compensation Insurance Claims	TOTAL
Operating revenues:					
Charges for services	\$ 5,068,815	\$ 645,293	\$ 1,221,352	\$ 1,573,025	\$ 8,508,485
Insurance refunds and other	-	-	2,170	356,453	358,623
Total operating revenues	<u>5,068,815</u>	<u>645,293</u>	<u>1,223,522</u>	<u>1,929,478</u>	<u>8,867,108</u>
Operating expenses:					
Salaries and benefits	1,532,299	385,778	-	-	1,918,077
Materials, services and supplies	1,622,160	162,109	-	-	1,784,269
General and administrative	-	-	1,544,553	6,928,325	8,472,878
Depreciation and amortization	1,374,127	118,303	-	-	1,492,430
Total operating expenses	<u>4,528,586</u>	<u>666,190</u>	<u>1,544,553</u>	<u>6,928,325</u>	<u>13,667,654</u>
Operating income (loss)	<u>540,229</u>	<u>(20,897)</u>	<u>(321,031)</u>	<u>(4,998,847)</u>	<u>(4,800,546)</u>
Nonoperating revenues (expenses):					
Interest revenue	-	-	774,341	-	774,341
Other revenue	100,813	-	-	-	100,813
Gain (loss) on retirement of assets	(21,557)	-	-	-	(21,557)
Interest expense	-	-	(604,725)	-	(604,725)
Total nonoperating revenues	<u>79,256</u>	<u>-</u>	<u>169,616</u>	<u>-</u>	<u>248,872</u>
Income (loss) before transfers	<u>619,485</u>	<u>(20,897)</u>	<u>(151,415)</u>	<u>(4,998,847)</u>	<u>(4,551,674)</u>
Transfers in				707,800	707,800
Transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>619,485</u>	<u>(20,897)</u>	<u>(151,415)</u>	<u>(4,291,047)</u>	<u>(3,843,874)</u>
Total net assets - beginning	<u>7,356,228</u>	<u>417,111</u>	<u>4,498,882</u>	<u>(10,807,528)</u>	<u>1,464,693</u>
Total net assets - ending	<u>\$ 7,975,713</u>	<u>\$ 396,214</u>	<u>\$ 4,347,467</u>	<u>\$ (15,098,575)</u>	<u>\$(2,379,181)</u>

**CITY OF SANTA CLARA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

	Automotive Services	Technical Equipment Services	Special Liability Insurance Claims	Workers' Compensation Insurance Claims	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 5,190,886	\$ 645,293	\$ 1,221,352	\$ 1,618,277	\$ 8,675,808
Payments to suppliers	(1,750,619)	(119,427)	-	-	(1,870,046)
Payments to employees	(1,530,990)	(387,165)	-	-	(1,918,155)
Internal activity - payments to other funds	(107,787)	(14,006)	-	-	(121,793)
Claims paid	-	-	(1,217,481)	(2,474,884)	(3,692,365)
Other receipts (payments)	100,813	-	-	-	100,813
Net cash provided by operating activities	1,902,303	124,695	3,871	(856,607)	1,174,262
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Increase (decrease) in due from other funds	(163,900)	(1,720)	-	-	(165,620)
(Increase) decrease in due to other funds	(272,663)	18,825	-	-	(253,838)
Transfers in	-	-	-	707,800	707,800
Transfers (out)	-	-	-	-	-
Cash Flows from Noncapital Financing Activities	(436,563)	17,105	-	707,800	288,342
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets, net	(2,106,206)	-	-	-	(2,106,206)
Interest paid on capital debt	-	-	(604,725)	-	(604,725)
Cash Flows from Capital and Related Financing Activities	(2,106,206)	-	(604,725)	-	(2,710,931)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	-	-	627,989	-	627,989
Deposits made with fiscal agent	-	-	(27,990)	-	(27,990)
Cash Flows from Investing Activities	-	-	599,999	-	599,999
Net increase (decrease) in cash and cash equivalents	(640,466)	141,800	(855)	(148,807)	(648,328)
Cash and investments at beginning of period	6,648,233	70,605	5,088,631	2,358,343	14,165,812
Cash and investments at end of period	\$ 6,007,767	\$ 212,405	\$ 5,087,776	\$ 2,209,536	\$ 13,517,484
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 540,229	\$ (20,897)	\$ (321,031)	\$ (4,998,847)	\$ (4,800,546)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,374,127	118,303	-	-	1,492,430
Change in assets and liabilities:					
Receivables, net	122,072	-	-	45,252	167,324
Inventory	6,546	-	-	-	6,546
Accrued liabilities	(242,792)	28,676	324,902	4,096,988	4,207,774
Compensated absences	1,308	(1,387)	-	-	(79)
Other receipts	100,813	-	-	-	100,813
Net cash provided by operating activities	\$ 1,902,303	\$ 124,695	\$ 3,871	\$ (856,607)	\$ 1,174,262

<p>CITY OF SANTA CLARA FIDUCIARY FUNDS – AGENCY FUNDS</p>

Agency Funds, the only fiduciary funds the City has, are presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as an agent for individuals, governmental entities, and non-public organizations. These funds include the following:

EMPLOYEE BENEFIT AND LIABILITY CLEARING

This fund is used to account for monies collected and disbursed related to employee and retiree health, dental and other fringe benefits.

SPECIAL ASSESSMENTS

This fund accounts for monies collected and disbursed from special assessment districts where the City is not obligated for the outstanding debt payments.

DEPOSITS

This fund accounts for various deposits including leases, subpoena and utility deposits.

**CITY OF SANTA CLARA
AGENCY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

	Employee Benefit & Liability Clearing	Special Assessments	Deposits	Total
ASSETS				
Pooled cash and investments	\$ 8,897,600	\$ 3,138,253	\$ 4,901,293	\$ 16,937,146
Cash and investments with fiscal agents	-	210,582	-	210,582
Total Assets	<u>\$ 8,897,600</u>	<u>\$ 3,348,835</u>	<u>\$ 4,901,293</u>	<u>\$ 17,147,728</u>
LIABILITIES				
Due to bondholders	\$ -	\$ 3,348,835	\$ -	\$ 3,348,835
Accrued liabilities	8,897,600	-	-	8,897,600
Refundable deposits	-	-	4,901,293	4,901,293
Total Liabilities	<u>\$ 8,897,600</u>	<u>\$ 3,348,835</u>	<u>\$ 4,901,293</u>	<u>\$ 17,147,728</u>

**CITY OF SANTA CLARA
AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
<u>Employee Benefit and Liability Clearing Fund</u>				
Pooled cash and investments	<u>\$ 7,128,902</u>	<u>\$ 126,815,741</u>	<u>\$ 125,047,043</u>	<u>\$ 8,897,600</u>
Accrued liabilities	<u>\$ 7,128,902</u>	<u>\$ 126,815,741</u>	<u>\$ 125,047,043</u>	<u>\$ 8,897,600</u>
<u>Special Assessments</u>				
Pooled cash and investments	\$ 3,072,468	\$ 1,416,575	\$ 1,350,790	\$ 3,138,253
Cash and investments with fiscal agent	210,582	-	-	210,582
Total Assets	<u>\$ 3,283,050</u>	<u>\$ 1,416,575</u>	<u>\$ 1,350,790</u>	<u>\$ 3,348,835</u>
Due to bondholders	<u>\$ 3,283,050</u>	<u>\$ 1,416,575</u>	<u>\$ 1,350,790</u>	<u>\$ 3,348,835</u>
<u>Deposits Fund</u>				
Pooled cash and investments	<u>\$ 6,228,289</u>	<u>\$ 991,661</u>	<u>\$ 2,318,657</u>	<u>\$ 4,901,293</u>
Accrued liabilities	\$ -	\$ -	\$ -	\$ -
Refundable deposits	6,228,289	991,661	2,318,657	4,901,293
Total liabilities	<u>\$ 6,228,289</u>	<u>\$ 991,661</u>	<u>\$ 2,318,657</u>	<u>\$ 4,901,293</u>
<u>Total Agency Funds</u>				
Pooled cash and investments	\$ 16,429,659	\$ 129,223,977	\$ 128,716,490	\$ 16,937,146
Cash and investments with fiscal agent	210,582	-	-	210,582
Total Assets	<u>\$ 16,640,241</u>	<u>\$ 129,223,977</u>	<u>\$ 128,716,490</u>	<u>\$ 17,147,728</u>
Due to bondholders	\$ 3,283,050	\$ 1,416,575	\$ 1,350,790	\$ 3,348,835
Accrued liabilities	7,128,902	126,815,741	125,047,043	8,897,600
Refundable deposits	6,228,289	991,661	2,318,657	4,901,293
Total Liabilities	<u>\$ 16,640,241</u>	<u>\$ 129,223,977</u>	<u>\$ 128,716,490</u>	<u>\$ 17,147,728</u>

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Statistical Information

CITY OF SANTA CLARA STATISTICAL SECTION
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This part of the City of Santa Clara's Comprehensive Annual Report provides detailed information to better understand the data presented within the financial statements, note disclosures, and required supplementary information.

<u>CATEGORY</u>	<u>TABLES</u>
FINANCIAL TRENDS Contains trend information to help the reader understand how the City's financial performance has changed over time.	1 - 4
REVENUE CAPACITY Contains information to help the reader assess the City's most significant local revenue source, the property tax.	5 - 8
DEBT CAPACITY Presents information to assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	9 - 12
DEMOGRAPHIC AND ECONOMIC INFORMATION Offers information to help the reader understand the environment within which the City's financial activities take place.	14 - 15
OPERATING INFORMATION Contains service and infrastructure data to help the reader understand how the City's financial report relates to the services the City provides and the activities it performs.	16 - 19

CITY OF SANTA CLARA
Net Assets by Component
Last Six Fiscal Years
(Accrual Basis of Accounting)
(In Thousands)

Table 1

	2007	2006	2005	2004	2003	2002
Governmental Activities:						
Investment in Capital Assets, Net of Related Debt	\$ 458,933	\$ 442,141	\$ 407,174	\$ 397,364	\$ 339,694	\$ 298,345
Restricted	161,406	165,684	167,200	157,189	158,375	161,280
Unrestricted	84,269	79,583	116,132	137,384	185,082	186,952
Total Governmental Activities Net Assets:	\$ 704,608	\$ 687,408	\$ 690,506	\$ 691,937	\$ 683,151	\$ 646,577
Business - Type Activities:						
Investment in Capital, Net of Related Debt	\$ 313,110	\$ 309,902	\$ 311,767	\$ 328,025	\$ 343,791	\$ 201,959
Restricted	1,119	1,413	3,741	42,204	4,133	6,816
Unrestricted	541,778	520,701	548,216	466,855	486,309	527,053
Total Business - Type Activities Net Assets	\$ 856,007	\$ 832,016	\$ 863,724	\$ 837,084	\$ 834,233	\$ 735,828
Primary Government						
Investment in Capital, Net of Related Debt	\$ 772,043	\$ 752,043	\$ 718,941	\$ 725,389	\$ 683,485	\$ 500,304
Restricted	162,525	167,097	170,941	199,393	162,508	168,096
Unrestricted	626,047	600,284	664,348	604,239	671,391	714,005
Total Primary Government Net Assets	\$ 1,560,615	\$ 1,519,424	\$ 1,554,230	\$ 1,529,021	\$ 1,517,384	\$ 1,382,405

Source: Finance Department, City of Santa Clara.
The City implemented the new reporting model in fiscal year 2001-2002.
Until 10 years of data are available, only the available years will be presented.

CITY OF SANTA CLARA
Changes in Net Assets
Last Six Fiscal Years
(Accrual Basis of Accounting)
(In Thousands)

Table 2

	2007	2006	2005	2004	2003	2002
Expenses:						
Governmental Activities:						
General Administration	\$ 9,869	\$ 11,851	\$ 17,332	\$ 10,050	\$ 8,866	\$ 8,336
City Clerk	720	566	691	553	558	474
City Attorney	1,079	1,159	1,079	1,250	1,252	1,152
Human Resources	1,745	1,722	1,730	1,657	1,737	1,719
Finance	6,211	6,284	6,172	6,109	7,271	8,141
Public Works	28,769	27,420	30,752	25,124	27,026	24,295
Parks and Recreation	12,828	11,925	10,806	10,735	11,043	10,387
Public Safety:						
Police	41,105	39,218	32,007	31,182	30,154	27,413
Fire	32,183	31,668	29,063	28,385	28,162	26,432
Communications	**	**	3,997	4,076	4,110	3,704
Planning & Inspection	5,083	5,699	5,471	5,197	4,960	5,150
Library	8,106	7,960	7,898	5,985	6,015	5,753
Interest on long term debt	12,338	12,727	13,277	14,529	13,861	15,398
Total Governmental Activities Expenses	160,036	158,199	160,275	144,832	145,015	138,354
Business-type Activities:						
Utilities:						
Electric -						
Retail	269,659	250,476	194,382	202,611	204,746	220,655
Wholesale	197,076	249,500	165,790	207,975	227,284	395,336
Water	21,397	19,582	18,756	18,556	16,864	15,178
Sewer	12,181	15,124	9,047	11,902	12,027	20,923
Water Recycling	2,322	947	853	743	725	463
Solid Waste	15,508	15,589	14,343	14,563	14,424	15,164
Cemetery	709	770	769	788	814	748
Sports and Open Space Authority	20	36	26	20	21	22
Santa Clara Golf and Tennis Club	2,591	2,697	2,528	2,591	2,567	2,631
Santa Clara Convention Center	6,003	6,163	5,981	5,752	5,702	5,030
Total Business-type Activities Expenses	527,466	560,884	412,475	465,501	485,174	676,150
Total Primary Government Expenses	\$ 687,502	\$ 719,083	\$ 572,750	\$ 610,333	\$ 630,189	\$ 814,504

Note: ** Now included in Police

Source: Finance Office, City of Santa Clara. The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

CITY OF SANTA CLARA
Changes In Net Assets
Last Six Fiscal Years
(Accrual Basis of Accounting)
(In Thousands)
(continued)

Table 2

	2007	2006	2005	2004	2003	2002
Program Revenues:						
Governmental Activities:						
Charges for Services:						
General Administration	\$ 9,340	\$ 9,888	\$ 9,129	\$ 64	\$ 44	\$ 35
Parks and Recreation	2,407	2,376	1,848	1,483	1,606	1,422
Planning and Inspection	4,114	4,778	4,353	3,023	3,513	3,697
Other Programs	5,943	5,699	6,396	4,815	4,741	5,668
Operating Grants and Contributions	4,732	5,418	5,465	4,601	3,849	5,810
Capital Gains and Contributions	5,095	3,762	4,530	7,613	5,800	3,983
Total Governmental Activities Program Revenues	31,631	31,921	31,721	21,599	19,553	20,615
Business-type Activities:						
Utilities:						
Electric -						
Retail	251,332	211,111	193,492	188,229	188,222	194,244
Wholesale	204,723	255,188	170,165	219,798	227,454	424,379
Water	21,701	19,645	18,885	18,569	16,661	15,302
Sewer	23,178	12,948	12,065	12,017	12,532	11,920
Water Recycling	1,504	966	852	897	598	516
Solid Waste	15,624	14,688	14,405	13,527	12,296	11,795
Cemetery	564	511	525	470	468	457
Sports and Open Space Authority	1,317	1,287	1,317	1,436	1,672	2,569
Santa Clara Golf and Tennis Club	3,200	3,020	2,913	2,842	3,083	3,197
Santa Clara Convention Center	6,654	4,033	3,478	3,424	2,813	3,731
Total Business-type Activities Program Revenues	529,797	523,397	418,097	461,209	465,799	668,110
Total Primary Government Program Revenues	561,428	555,318	449,818	482,808	485,352	688,725
Net (Expense) Revenue:						
Governmental Activities	(128,405)	(126,278)	(128,554)	(123,233)	(125,462)	(117,739)
Business-Type Activities	2,332	(37,048)	7,676	(3,350)	(12,983)	(6,496)
Total Primary Government Net (Expense) Revenue	(126,073)	(163,326)	(120,878)	(126,583)	(138,445)	(124,235)
General Revenue and other changes in Net Assets:						
Taxes:						
Sales	43,176	38,066	35,696	35,976	33,815	40,104
Ad Valorem Property	49,736	39,388	39,928	40,868	45,335	44,885
Transient occupancy	10,542	9,601	7,863	7,160	7,890	-
Other	4,731	4,856	6,173	5,853	4,953	15,584
Internal Governmental, unrestricted:						
Motor Vehicle in-lieu	684	668	2,489	5,267	6,033	5,840
Contribution in-lieu of taxes	14,722	12,860	11,993	11,905	11,865	11,817
Investment earnings	33,838	31,544	33,786	38,568	53,861	66,071
Net increase (decrease) in the fair value of investments	4,674	(16,596)	(1,290)	(25,380)	-	-
Rents and Royalties	2,474	5,001	5,852	13,734	12,095	10,100
Other	2,687	3,803	3,292	4,436	272	4,040
Total Primary Government General Revenue and Transfers	167,264	129,191	145,782	138,387	176,119	198,441
Change in Net Assets - Total Primary Government	41,191	(34,135)	24,904	11,804	37,674	74,206
Net Assets - Beginning of Year (Restated)	1,519,424	1,553,559	1,528,655	1,516,850	1,382,183	1,307,977
Net Assets - End of Year - Total Primary Government	\$ 1,560,615	\$ 1,519,424	\$ 1,553,559	\$ 1,528,654	\$ 1,419,857	\$ 1,382,183

Source: Finance Office, City of Santa Clara. The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

CITY OF SANTA CLARA
Fund Balances - Governmental Funds
Last Six Fiscal Years
(Modified Accrual Basis of Accounting)
(In Thousands)

Table 3

	2007	2006	2005	2004	2003	2002
General Fund:						
Reserved	\$ 22,394	\$ 19,656	\$ 16,266	\$ 15,844	\$ 15,805	\$ 15,925
Unreserved:						
Designated	54,725	47,802	55,002	65,799	75,612	100,091
Undesignated	-	-	7,580	689	12,717	13,471
Total General Fund	77,119	67,458	78,848	82,332	104,134	129,487
All other Governmental Funds:						
Reserved	78,343	71,167	80,362	74,265	90,301	93,279
Unreserved, reported in:						
Capital projects funds	136,414	153,503	154,759	170,963	179,398	118,555
Special revenue funds	7,033	7,771	11,483	11,119	9,235	1,093
Permanent funds	-	-	4,002	3,949	3,790	3,713
Other purposes	10,712	8,299	-	-	-	-
Total All Other Governmental Funds	232,502	240,740	250,606	260,296	282,724	216,640
Total Governmental Funds	\$ 309,621	\$ 308,198	\$ 329,454	\$ 342,628	\$ 386,858	\$ 346,127

Source: Finance Office, City of Santa Clara. The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented

CITY OF SANTA CLARA
Changes in Fund Balances - Governmental Funds
Last Six Fiscal Years
(In Thousands)
(Modified Accrual Basis of Accounting)

Table 4

	2007	2006	2005	2004	2003	2002
REVENUES:						
Taxes:						
Sales	\$ 43,176	\$ 38,066	\$ 35,696	\$ 35,976	\$ 33,815	\$ 40,104
Ad Valorem Property	49,736	39,388	39,928	40,868	45,335	44,885
Transient occupancy	10,542	9,601	7,863	7,160	7,890	*
Other	5,636	5,716	5,005	5,070	4,184	16,308
Licences, permits, fees and penalties	5,199	4,946	5,229	4,736	4,608	4,454
Internal Governmental	9,685	8,202	8,744	12,947	11,181	15,012
Charges for Services	20,417	19,881	15,329	14,662	12,283	13,913
Contribution in-lieu of taxes	14,722	12,861	11,993	11,905	11,665	11,817
Interest and Rents	29,955	28,253	30,394	31,287	36,939	40,121
Net (decrease) in the fair value of investments	1,553	(5,473)	(484)	(10,089)	**	**
Other	2,557	1,990	4,209	5,429	2,984	3,080
TOTAL REVENUES	193,178	163,431	163,906	160,151	171,084	189,694
EXPENDITURES						
Current:						
General Administration	29,253	27,084	29,631	23,230	23,277	23,607
City Clerk	755	554	676	541	532	448
City Attorney	1,230	1,137	1,071	1,280	1,234	1,126
Human Resources	1,752	1,724	1,722	1,664	1,722	1,690
Finance	6,224	6,206	6,034	6,023	7,064	7,939
Public Works	17,012	15,503	15,767	14,670	14,762	14,511
Parks and Recreation	11,486	10,686	10,249	10,657	10,809	10,064
Public Safety:						
Police	37,450	34,837	30,776	30,197	28,833	26,155
Fire	30,157	29,112	27,947	27,711	26,995	25,254
Communications	***	***	3,847	4,002	3,995	3,584
Planning & Inspection	4,814	5,410	5,344	5,200	4,860	5,021
Library	6,897	6,742	6,891	5,883	5,853	5,618
Capital Outlay	26,912	29,354	19,242	50,435	48,559	28,920
Debt Service:						
Principal	8,985	5,918	13,351	12,148	11,423	9,795
Interest	11,811	12,182	12,984	14,125	13,103	10,944
TOTAL EXPENDITURES	194,738	186,449	185,532	207,766	203,021	174,677
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,560)	(23,018)	(21,626)	(47,615)	(31,937)	15,017
OTHER FINANCING SOURCES (USES):						
Long-term Debt Issuance	-	-	-	-	102,490	33,910
Bond Premium	-	-	-	-	784	1,443
Payment to Bond Escrow Agent	-	-	-	-	(32,540)	(38,339)
Sale of Capital Assets	596	1,701	408	51	19	1
Transfers In	25,698	37,055	28,728	25,819	37,061	49,722
Transfers Out	(23,311)	(35,554)	(28,099)	(22,485)	(35,146)	(48,579)
TOTAL OTHER FINANCING SOURCES (USES)	2,983	3,202	1,037	3,385	72,669	(1,841)
NET CHANGE IN FUND BALANCES	\$ 1,423	\$ (19,616)	\$ (20,589)	\$ (44,230)	\$ 40,732	\$ 13,176
DEBT SERVICE AS A PERCENTAGE OF NON-CAPITAL EXPENDITURES	11%	10%	14%	13%	12%	12%

Note: * Included in Taxes - Other

** Included in Interest and Rents

*** Included in Police starting in fiscal year 2005-06.

Source: Finance Office, City of Santa Clara. The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented

CITY OF SANTA CLARA
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(In Thousands)

Table 5

Fiscal Year Ending June 30	Net Local Secured Roll	SBE (2)	Net Unsecured Roll	Net Assessed Valuation (1)	Estimated Actual Value	Ratio of Assessed Value To Estimated Value	% of Growth of Assessed Valuation	Total Direct Tax Rate
1997 / 98	\$8,949,286	3,327	\$3,084,904	\$12,037,517	\$12,424,530	96.89%	11.87%	1.0852%
1998 / 99	\$10,088,177	3,425	\$3,046,790	\$13,138,392	\$13,250,246	99.16%	9.15%	1.0920%
1999 / 00	\$10,879,040	2,632	\$3,326,278	\$14,207,950	\$14,320,454	99.21%	8.14%	1.0629%
2000 / 01	\$11,822,175	2,497	\$3,463,886	\$15,288,558	\$15,400,547	99.27%	7.61%	1.0605%
2001 / 02	\$13,744,409	2,554	\$4,477,383	\$18,224,346	\$18,335,454	99.39%	19.20%	1.0792%
2002 / 03	\$15,110,520	2,861	\$4,207,133	\$19,320,514	\$19,429,970	99.44%	6.01%	1.0712%
2003 / 04	\$15,283,368	2,803	\$3,639,274	\$18,925,445	\$19,033,631	99.43%	-2.04%	1.0738%
2004 / 05	\$14,978,836	2,471	\$2,991,292	\$17,972,599	\$18,081,181	99.40%	-5.03%	1.0824%
2005 / 06	\$15,663,135	1,756	\$3,037,319	\$18,702,210	\$18,813,195	99.41%	4.06%	1.1467%
2006 / 07	\$17,458,047	1,605	\$2,905,729	\$20,365,381	\$20,478,830	99.45%	8.89%	1.1383%

Notes: (1) Full cash value

(2) Beginning in fiscal 1989, Chapter 921 of the Statutes of 1987 requires the establishment of a single County-wide tax rate area for the assignment of the assessed value of certain types of State-assessed utility property.

Source: Santa Clara County, Department of Finance

CITY OF SANTA CLARA
Property Tax Rates
(Per \$100 assessed valuation)
Direct and Overlapping Governments
Last Ten Fiscal Years

Table 6

Fiscal Year Ending June 30	Santa Clara County	School Districts	Special Districts	Total
1997 / 98	1.0341%	0.0413%	0.0098%	1.0852%
1998 / 99	1.0388%	0.0450%	0.0082%	1.0920%
1999 / 00	1.0319%	0.0225%	0.0085%	1.0629%
2000 / 01	1.0356%	0.0174%	0.0075%	1.0605%
2001 / 02	1.0364%	0.0366%	0.0062%	1.0792%
2002 / 03	1.0388%	0.0252%	0.0072%	1.0712%
2003 / 04	1.0388%	0.0263%	0.0087%	1.0738%
2004 / 05	1.0388%	0.0344%	0.0092%	1.0824%
2005 / 06	1.0388%	0.1001%	0.0078%	1.1467%
2006 / 07	1.0388%	0.0923%	0.0072%	1.1383%
<p>Tax rate limit: A state constitutional amendment (Proposition 13) commencing with fiscal 1979 provided that the tax rate was limited to 1% of full cash value, levied only by the County and shared with all other jurisdictions. All jurisdictions may levy a tax rate for voter approved debt.</p> <p>Due date for current taxes: First installment - November 1; second installment - February 1.</p> <p>Penalties for delinquency: 10% and \$5.00 cost after date taxes become delinquent.</p> <p>Collected by government unit: County of Santa Clara.</p> <p>Basis upon which collections are distributed: Taxing jurisdictions assessed valuations and tax rates for voter approved debt to taxing jurisdictions, County rate (1% of full cash value) shared by all jurisdictions.</p> <p>Compensation paid to collecting government unit: \$413,771</p>				

Note: Tax rates stated are the rates applicable to the tax rate area 7-000 as typical tax rate area. within the City. Rates are based on \$100 assessed valuation.

Source: Santa Clara County, Department of Finance

CITY OF SANTA CLARA
Principal Property Tax Payers
2006-07 and 2002-03 Comparison for General Fund
(In Thousands)

Table 7

Organization	2006-07		2002-03	
	Revenue in Thousands	Percent of Total	Revenue in Thousands	Percent of Total
Intel Corporation	\$ 1,619	8.70%	\$ 1,409	9.83%
Applied Materials Inc.	472	2.54%	537	3.75%
Kaiser Foundation Hospital	190	1.02%		
Sun Microsystems, Inc.	181	0.97%	259	1.81%
National Semiconductor Corporation	174	0.93%	195	1.36%
Agilent Technologies Inc.	173	0.93%	204	1.42%
Nvidia Corporation	143	0.77%		
Sobrato Development Company	139	0.74%	311	2.17%
Marvell Technology, Inc.	136	0.73%		
Ellis Middlefield Business Park, L.P.	109	0.59%		
Rivermark Partners LLC			178	1.24%
3Com Corporation			159	1.11%
Exodus Communications Inc.			147	1.03%
BRE San Tomas LLC			132	0.92%
Mission West Properties, L.P.				
Silicon Valley California, LLC				
Top Ten Total	\$ 3,336	17.92%	\$ 3,531	24.64%
City Total	\$ 18,612		\$ 14,333	

Source: Santa Clara County Assessor 2006/07 Combined Tax Rolls through HdL Coren & Cone.
Additional years of historical data are not available

CITY OF SANTA CLARA
Property Tax Levies and Collections
Last Ten Fiscal Years
(In Thousands)

Table 8

Fiscal Year Ending June 30	Gross Tax Levy	Current Tax Collections	Percentage of Current Levy Collected	Delinquent Tax Collections	Total Collections
1997 / 98	\$10,669	\$10,519	98.59%	\$122	\$10,641
1998 / 99	\$11,713	\$11,543	98.55%	\$124	\$11,667
1999 / 00	\$12,855	\$12,744	99.14%	\$85	\$12,829
2000 / 01	\$13,733	\$13,523	98.47%	\$181	\$13,704
2001 / 02	\$15,848	\$15,795	99.67%	\$14	\$15,809
2002 / 03	\$16,884	\$16,763	99.28%	\$22	\$16,785
2003 / 04	\$16,182	\$16,106	99.53%	(\$3)	\$16,103
2004 / 05	\$15,892	\$15,841	99.68%	\$0	\$15,841
2005 / 06	\$16,624	\$16,565	99.65%	\$0	\$16,565
2006 / 07	\$18,197	\$18,128	99.62%	\$0	\$18,128

Sources: City of Santa Clara
Santa Clara County, Department of Finance

CITY OF SANTA CLARA
Ratios of Outstanding Debt by Type
Last Five Fiscal Years
(In Thousands)

Table 9

Fiscal Year Ending June 30	Governmental Activities				Redevelopment Agency	Business Activities	Total Primary Government	Population	Debt per Capita	Total Personal Income (\$000)	Debt/Income Ratio
	Public Financing Authority				Tax Allocation Bonds	Revenue Bonds					
	Certificates of Participation	Insurance Funding Bonds	Assessment Bonds	Total Governmental Activities							
2002 / 03	\$ 72,895	\$ 20,000	\$ 8,240	\$ 101,135	\$ 159,727	\$ 132,846	\$ 393,508	104,308	\$ 3,773	\$ 2,818,661	13.96%
2003 / 04	70,010	20,000	7,490	97,500	151,214	280,609	529,323	105,831	5,002	2,677,383	19.77%
2004 / 05	66,725	20,000	6,700	93,425	141,938	275,360	510,723	107,200	4,764	2,720,598	18.77%
2005 / 06	63,345	20,000	5,875	89,220	140,225	269,883	499,328	109,106	4,577	2,765,258	18.06%
2006 / 07	59,850	20,000	5,015	84,865	135,325	258,015	478,205	110,771	4,317	3,831,589	12.48%

Sources: Note 11, Note 2; Statement of Net Assets; MuniServices LLC

The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

CITY OF SANTA CLARA
Population and Assessed Valuation
Last Ten Fiscal Years
(In Thousands)

Table 10

Fiscal Year Ending June 30	Population	Assessed Value (1)
1997 / 98	100.0	\$ 12,037,517
1998 / 99	101.9	13,250,246
1999 / 00	102.7	14,320,454
2000 / 01	102.9	15,400,547
2001 / 02	104.6	18,335,454
2002 / 03	104.3	19,429,970
2003 / 04	105.8	19,033,631
2004 / 05	107.2	18,081,181
2005 / 06	109.1	18,813,195
2006 / 07	110.8	20,478,830

Note: (1) Assessed values are estimated actual value.

Sources: State of California, Department of Finance
Santa Clara County, Department of Finance
City of Santa Clara

CITY OF SANTA CLARA
Computation of Direct and Overlapping Bonded Debt
June 30, 2007

Table 11

Description	% Applicable	Debt
<u>Direct Debt:</u>		
Certificates of Participation Series 2002 A	100%	\$ 23,335,000
Certificates of Participation Series 2002 B	100%	23,575,000
Certificates of Participation Series 1997	100%	12,940,000
City of Santa Clara 1915 Act Bonds	100%	5,015,000
Total Gross Direct Debt		64,865,000
<u>Overlapping Debt:</u>		
Santa Clara County General Fund Obligations	7.75%	64,060,465
Santa Clara Valley Water District Benefit Assessment District	7.75%	13,414,656
Santa Clara County Board of Education Certificates of Participation	7.75%	1,265,351
Foothill DeAnza Community College District	1.35%	6,565,407
San Jose Community College District	0.04%	62,366
West Valley-Mission Community College District	27.55%	25,235,331
West Valley-Mission Community College District General Fund Obligations	27.55%	9,346,317
Fremont Union High School District	2.88%	3,904,966
Campbell Union High School District	1.63%	1,883,903
Campbell Union School District	3.66%	3,872,114
Cupertino Union School District Certificates of Participation	4.76%	165,271
El Camino Hospital District	1.53%	2,267,360
San Jose Unified School District	0.12%	535,191
Cupertino Union School Districts	4.76%	5,784,109
Santa Clara Unified School District	79.93%	146,958,979
San Jose Unified School District Certificates of Participation	0.12%	131,437
Foothill DeAnza Community College District Certificates of Participation	1.35%	400,653
Santa Clara Unified School District Certificates of Participation	79.93%	10,375,174
Santa Clara County Vector Control District Certificates of Participation	7.75%	342,594
Total Overlapping Debt		296,571,644
Total Gross Direct and Overlapping Bonded Debt		361,436,644 (1)
TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT		\$ 361,436,644
2006 / 07 Assessed Value \$18,253,879,535 (after deducting \$ 2,224,950,642 redevelopment incremental value).		
<u>Ratios to Assessed Valuation:</u>		
Direct Debt \$ (64,865,000)	0.355%	
Total Gross Debt	1.980%	
Total Net Debt	1.980%	
State School Building Aid Repayable As of 6/30/07:	\$ -	

Note: (1) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds.

Source: California Municipal Statistics, Inc.

City of Santa Clara
Legal Debt Margin Information
Last Ten Fiscal Years
(In Thousands)

Table 12

Fiscal Year				
Ending June 30	Assessed Valuation	Debt Limit- 15% of Assessed Valuation*	Debt Applicable to Limit	Legal Debt Margin
1997 / 98	\$12,037,517	\$1,805,628	\$76,830	\$1,728,798
1998 / 99	13,138,392	1,970,759	20,000	1,950,759
1999 / 00	14,207,950	2,131,193	20,000	2,111,193
2000 / 01	15,288,558	2,293,284	10,096	2,273,284
2001 / 02	18,224,346	2,733,652	20,000	2,723,556
2002 / 03	19,320,514	2,898,077	20,000	2,878,077
2003 / 04	18,925,445	2,838,817	20,000	2,818,817
2004 / 05	17,972,599	2,695,890	20,000	2,675,890
2005 / 06	18,702,210	2,805,332	20,000	2,785,332
2006 / 07	20,365,381	3,054,807	20,000	3,034,807

Notes: * Section 1309 of the City Charter of the City states: "Bonded Debt Limit.
The bonded indebtedness of the City may not in the aggregate exceed the sum of fifteen percent (15%) of the total assessed valuation of property within the City, exclusive of revenue bonds or any indebtedness that has been or may hereafter be incurred for the purposes of acquiring, constructing, extending, or maintaining municipally owned utilities for which purposes a further indebtedness may be incurred by the issuance of bonds, subject only to the provisions of the State Constitution and this Charter."

Sources: Santa Clara County, Department of Finance
City of Santa Clara

CITY OF SANTA CLARA
Pledged Revenue Coverage
Electric Revenue Bond
Last Five Fiscal Years
(In Thousands)

Table 13

Fiscal Year Ending June 30		Gross Revenue (1)	Less Operating Expense (2)	Net Revenue Available For Debt Service	Principal	Interest	Letter Of Credit Fees	Total	Coverage (3)
2002 / 03	(4)	\$ 247,856	\$ 198,572	\$ 49,284	\$ 6,675	\$ 4,972	\$ 208	\$11,855	4.16
2003 / 04		208,042	178,600	29,442	5,160	8,432	262	13,854	2.13
2004 / 05		253,561	217,981	35,580	5,840	10,389	262	16,491	2.16
2005 / 06	(5)	283,611	251,676	31,935	11,080	11,216	266	22,562	1.42
2006 / 07		297,586	246,378	51,208	11,820	11,346	212	23,378	2.19

Notes: (1) Gross revenue Includes operating and nonoperating revenues including amounts on deposit in other unrestricted funds of the Electric Utility approved by resolution plus capitalized interest earnings less interest earnings on collateralized escrow securities.

(2) Direct expense includes operating expenses less depreciation and amortization and contribution-in-lieu to the General Fund, uncapitalized interest expense (other than revenue bonds) and letter of credit fees.

(3) The required coverage is 1.25

(4) In fiscal year 2002 / 03 Principal includes the cost of advanced refunding of the 1991 B Revenue Bonds for \$10.32 million.

(5) In fiscal year 2005 / 06 Gross Revenue also includes \$21.5 million fund transfer from Cost Reduction Fund to pay for the Enron settlement cost. Direct expense includes Enron's net settlement cost of \$21.5 million.

Source: City of Santa Clara

CITY OF SANTA CLARA
Demographic and Economic Statistics
Last Ten Calendar Years

Table 14

As of June 30	Population (1)	Personal Income (2) (\$000)	Per Capita Buying Income	Median Age	Public School Enrollment	County Unemployment Rate	City Unemployment Rate
1997 / 98	100,030	\$ 1,991,697	\$ 19,911	33.5	14,098	3.0%	2.8%
1998 / 99	101,877	2,169,160	21,292	33.7	14,182	3.2%	3.0%
1999 / 00	102,682	2,319,073	22,585	34.1	14,338	3.0%	2.8%
2000 / 01	102,895	2,482,753	24,129	34.3	14,308	2.0%	1.9%
2001 / 02	104,616	2,920,983	27,921	34.5	13,565	4.5%	4.2%
2002 / 03	104,306	2,818,661	27,023	34.2	13,321	8.4%	7.9%
2003 / 04	105,831	2,677,383	25,282	35.2	13,188	8.2%	7.7%
2004 / 05	107,200	2,720,598	26,465	35.7	13,839	6.2%	5.9%
2005 / 06	109,106	2,765,258	26,513	35.3	13,317	5.5%	4.8%
2006 / 07	110,771	3,831,569	34,590	-	13,366	5.0%	4.3%

Note: (-) Data unavailable

Sources: (1) Population and the Unemployment Rate are provided by California Department of Finance Projections.
(2) FY 2006-07 Income Data is determined using 2005 American Community Survey Data and adjusted for inflation
In accordance with rates provided by the Bureau of Labor Statistics. Prior years are from Sales & Marketing Power
Management- Survey Of Buying Power and previously published CAFR reports
2006-07 Source: MuniServices, LLC

CITY OF SANTA CLARA
Principal Private Employers
Current Year and Five Years Ago

Table 15

Company	2007		2003	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Intel Corporation	5,700	11.2%	8,000	15.6%
National Semiconductor Inc.	5,100	10.0%	2,000	3.9%
Advanced Cardiovascular Systems	4,200	8.3%		
Sun Microsystems, Inc.	3,500	6.9%	3,500	6.8%
Coast Personnel	2,000	3.9%	1,895	3.7%
Nortel Networks	1,895	3.7%		
Kaiser Foundation Hospitals	1,500	2.9%		
Coherent Inc.	1,500	2.9%		
Iseva Inc.	1,200	2.4%		
Guidant Corp.	1,082	2.1%		
Agilent Technologies			3,000	5.8%
Sanmina-SCI Corp.			1,500	2.9%
3Com Corporation			1,000	1.9%
Integrated Device Technology			1,000	1.9%
NEC Electronics			1,200	2.3%
Analog Devices			900	1.8%
Total Top Ten	27,677	54.3%	23,995	46.6%
All Others	24,823	45.7%	27,305	53.4%
Total Employment	52,500	100.0%	51,300	100.0%

Sources: City of Santa Clara The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.
2003-2006 Northern California Business Directory
California Employment Development Department

CITY OF SANTA CLARA
Full-time Equivalent Budgeted City Employees by Program/Function
Last Five Fiscal Years

Table 16

	Fiscal Year Ending June 30				
	2007	2006	2005	2004	2003
City Council	8.50	8.50	8.50	8.50	8.50
City Clerk	4.00	4.00	4.00	4.00	4.00
City Attorney	7.00	7.00	7.00	7.00	7.00
City Manager	8.00	8.00	8.00	8.00	8.00
Information Technology	4.00	4.00	4.00	4.00	4.00
Human Resources	15.00	15.00	15.00	16.00	16.00
Finance	54.00	54.00	55.00	55.00	55.00
Parks & Recreation	84.00	84.00	84.00	85.00	86.00
Library	42.75	42.75	42.75	43.75	38.75
Planning & Inspection	39.00	39.00	39.00	39.00	41.00
Engineering	44.00	44.67	44.67	46.00	46.00
Purchasing	9.00	9.00	9.00	9.00	9.00
Building Maintenance	13.50	13.50	13.50	13.50	13.50
Street	58.00	58.00	58.00	59.00	59.00
Automotive Services	19.00	19.00	19.00	20.00	20.00
Police	227.00	227.00	199.00	199.00	202.00
Fire	179.50	179.50	179.50	180.00	180.00
Communications	*	*	29.00	29.00	29.00
Electric Utility	144.00	144.00	144.00	138.00	133.00
Water Utility	45.50	45.50	44.50	44.50	44.50
Sewer Utility	13.50	13.50	13.50	13.50	13.50
TOTAL	1,019.25	1,019.92	1,020.92	1,021.75	1,017.75

Note: * Included in Police starting in 2005-06

Source: City of Santa Clara Annual Budget 2006-2007 The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

CITY OF SANTA CLARA
Operating Indicators by Function/Activity
Last Five Fiscal Years

Table 17

	Fiscal Year Ending June 30				
	2007	2006	2005	2004	2003
Culture and Recreation					
Number of library items circulated	2,545,942	2,657,430	2,625,227	2,188,632	2,347,996
Fire Protection:					
Number of calls answered	7,686	6,549	6,065	5,933	6,391
Number of inspections conducted	9,041	10,460	10,026	10,290	8,339
Police Protection:					
Number of calls for service	55,909	58,021	55,814	36,832	38,891
Electric System:					
Maximum annual demand	486.5 MW	461.2 MW	399.7 MW	405 MW	419 MW
Total annual energy	2,931,407 Mwh	2,764,831 Mwh	2,573,056 Mwh	2,507,000 Mwh	2,415,189 Mwh
Sewer System:					
Number of service connections	26,014	25,920	25,897	25,531	23,227
Peak flow (5-day average, WPCP)	125 MGD	118 MGD	109 MGD	109 MGD	119 MGD
Maximum daily capacity of treatment plant (WPCP)	167 MGD	167 MGD	167 MGD	167 MGD	167 MGD
Water System:					
Number of service accounts	25,277	25,136	24,905	26,478	24,475
Daily average consumption	22 MG	21 MG	21 MG	21 MG	21 MG
Maximum daily capacity of plant					
Potable Water	89 MGD	89 MGD	87 MGD	80 MGD	80 MGD
Recycled Water	15 MGD	15 MGD	15 MGD	15 MGD	15 MGD

Source: City of Santa Clara Annual Budget 2006-2007 The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

CITY OF SANTA CLARA
Capital Assets Statistics by Function
Last Five Fiscal Years

Table 18

	Fiscal Year Ending June 30				
	2007	2006	2005	2004	2003
Culture and Recreation:					
Number of community centers	4	4	4	4	4
Number of parks	32	31	30	30	28
Park acreage	282	282	277	277	265
Number of golf courses	1	1	1	1	1
Number of swimming pools	4	4	4	4	4
Number of tennis courts	28	28	27	27	27
Number of lawn bowling greens	1	1	1	1	1
Number of lighted soccer fields	3	3	3	3	0
Number of lighted softball fields	7	7	7	7	7
Number of neighborhood park buildings	8	8	8	8	8
Number of gymnastic centers	1	1	1	1	1
Number of skate parks	1	1	1	1	1
Number of community theaters	1	1	1	0	0
Number of libraries	2	2	2	2	2
Cemetery	2	2	2	2	2
Fire Protection:					
Number of stations	10	10	10	10	10
Police Protection:					
Number of stations	2	2	2	2	2
Electric System:					
Number of meters	50858	50069	49775	48753	48489
Miles of high voltage lines	479	479	477	475	471
Number of substations	16	16	14	14	14
Sewerage System:					
Miles of sanitary sewers	282	282	282	277	275
Miles of storm sewers	138	138	138	137	137
Number of treatment plants	1 Tertiary	1 Tertiary	1 Tertiary	1 Tertiary	1 Tertiary
Water System:					
Miles of water mains	335	334	301	301	298
Number of fire hydrants	3261	3249	3249	3143	3143
Miles of recycled water mains	20	19	19	19	19
Streets:					
Miles of Streets	249	249	249	248	248
Number of Street Lights	8181	8179	8170	8163	8171
Number of Traffic Signals	187	184	182	178	175

Source: City of Santa Clara Annual Budget 2006-2007 The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

CITY OF SANTA CLARA
Statement of Insurance Coverage
June 30, 2007

Table 19

TYPE OF POLICY	INSURANCE COMPANY	LIMITS**	ANNUAL PREMIUM	TERM YEARS	EXPIRATION DATE
<u>Liability</u>					
Comprehensive General	Self-insured (since 1987)	-	n/a	-	Ongoing
Workers' Compensation	Self-insured (since 1973)	\$500,000	n/a	-	Ongoing
Excess Workers' Compensation	CSAC Excess Ins. Authority	\$200 million	\$360,749	1	7/1/2007
<u>Property Coverage</u>					
All Risks, including flood, excluding earthquake	Public Entity Property Insurance Program (PEPIP): Lexington Insurance and various excess carriers	\$1 billion	\$461,213	1	7/1/2007
Boiler and Machinery	Lexington Insurance Co., CNA Insurance Co., and Foreign Excess Insurance Companies	\$100 million	\$23,215	1	7/1/2007
<u>Financial Loss Bonds</u>					
Faithful Performance, Crime Coverage Bond	CSAC Excess Ins. Authority and Lexington Insurance	\$10 million	\$7,959	1	6/30/2008

Notes: ** Limits are per occurrence
Source: City of Santa Clara